THE SOCIAL SECURITY SYSTEM: AVERTING THE CRISIS

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

EVANSTON, ILL.

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THE SOCIAL SECURITY SYSTEM: AVERTING THE CRISIS

MONDAY, AUGUST 10, 1981

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Evanston, Ill.

The committee met, pursuant to notice, at 9:35 a.m., in the Levy Center, Evanston, Ill., Hon. Charles H. Percy, presiding.

Present: Senator Percy.

Also present: From the Special Committee on Aging: John C. Rother, staff director. From Senator Percy's staff: Galen Reser, director of legislation and projects; Susan Nakagawa, executive assistant; Kathy Lydon, press secretary; and Lucinda Oliver, legislative assistant.

OPENING STATEMENT BY SENATOR CHARLES H. PERCY, PRESIDING

Senator PERCY. I want to welcome all of you here, and also to remind you that this is an official U.S. Senate hearing of the Senate Special Committee on Aging. This is, therefore, not a town meeting which I usually hold, where there is "give and take" from the floor. This is not possible because this is a hearing conducted under the rules of the U.S. Senate. Therefore, no demonstrations will be permitted at this hearing.

If there are attempts at demonstrations, if there are attempts for anyone to disrupt in any way the proceeding of the hearing, then I will be bound as chairman of this hearing to conform to the U.S. Senate rules.

There is a court reporter present. There is a long list of witnesses representing all interested parties—and we have a cross section of all interested parties. So I hope we will have order and we will proceed as expeditiously as we possibly can.

The subject of this hearing is the social security system, the crisis we have heard so much about, and what can be done to avoid it. Few topics are more important to both young and old Americans.

Before I discuss the social security system and the importance of maintaining its solvency, I would like to comment briefly on the elimination of the social security minimum benefit which was proposed by the administration and recently approved by Congress.

It was never the intention of the Congress to reduce benefits to the truly needy. Most of the 3 million beneficiaries do not depend on the minimum benefit as a primary source of income. And for those who do, it was believed that the supplemental security income program would protect them.

But recently there has been some question about the status of some 300,000 persons. For these apparently needy persons, there may not be adequate protection. This concerns me greatly.

Just before leaving Washington last Thursday, I talked with Senator Bill Armstrong, who chairs the Social Security Subcommittee of the Senate Finance Committee. He has pledged a full review of the matter to insure that there will be no benefit reductions for these needy persons. The President also conceded last week that there is a hole in the safety net that was not adequately understood before he made his original proposal.

Now that we have his support, I am sure the Congress will act quickly to remedy this problem when it convenes in September. This proposal is not effective until next year, so we have adequate time to repair the hole in the safety net and restore benefits to those people affected, unknowingly and unwittingly.

In 1978, slightly over 90 percent of older families received social security benefits. Some 15 percent of older individuals and 6 percent of older families reported that social security was their sole source of income.

In Illinois, the statistics are similar. More than 80 percent of older families and individuals receive some income from social security. While these benefits make up only 18.5 percent of income for nonpoor families, it represents over 75 percent of income for those older persons living in poverty.

Clearly, social security plays an important role in providing economic security for older Americans. It is essential that we take steps immediately to restore financial integrity to this vital economic support system.

The Senate Special Committee on Aging, which is chaired by Senator John Heinz of Pennsylvania, and on which I have served proudly for many years while in the Senate, has already held three hearings on the social security system in Washington in recent weeks. We have heard from a variety of expert witnesses about the short-term financing problems, the impact of early retirement, and the automatic indexation of social security benefits.

Today's hearing will be much more general in scope. Shortly after the administration announced its proposals for reforming the social security system, I returned to Illinois. I learned firsthand how alarmed older people were, and how worried they were, about losing benefits they had planned on receiving for 30 or 40 years. Although I did my best to reassure them, their fear was fed by much misinformation both about the social security system's financing problems and about proposed solutions, the President's and others.

It was at that time that I determined the Aging Committee should take its social security hearings to the field to provide a forum where the administration could fully explain the problems with social security and its proposals to solve them. And most important I wanted to get input from all of you through the witnesses we have brought before us today. They represent the aging service network, business, organized labor, workers, and older Americans. Their opinions on the social security system are not the same. Their solutions vary greatly. These are the interests that

Congress must attempt to balance in coming up with solutions for the short- and long-term problems facing social security.

The two problems are distinct. There is an immediate short-term problem during the period of 1982–86, and there is a more distant long-term problem culminating around the year 2030. Between the two periods—that is, from 1987 to the year 2029—future scheduled tax increase should bring in sufficient revenues to pay benefits according to present estimates.

Because the two problems have different origins, they will require different solutions. The short-term problem is, in my opinion, serious but manageable. The long-term problem may require a reevaluation of the intended purpose of the social security system.

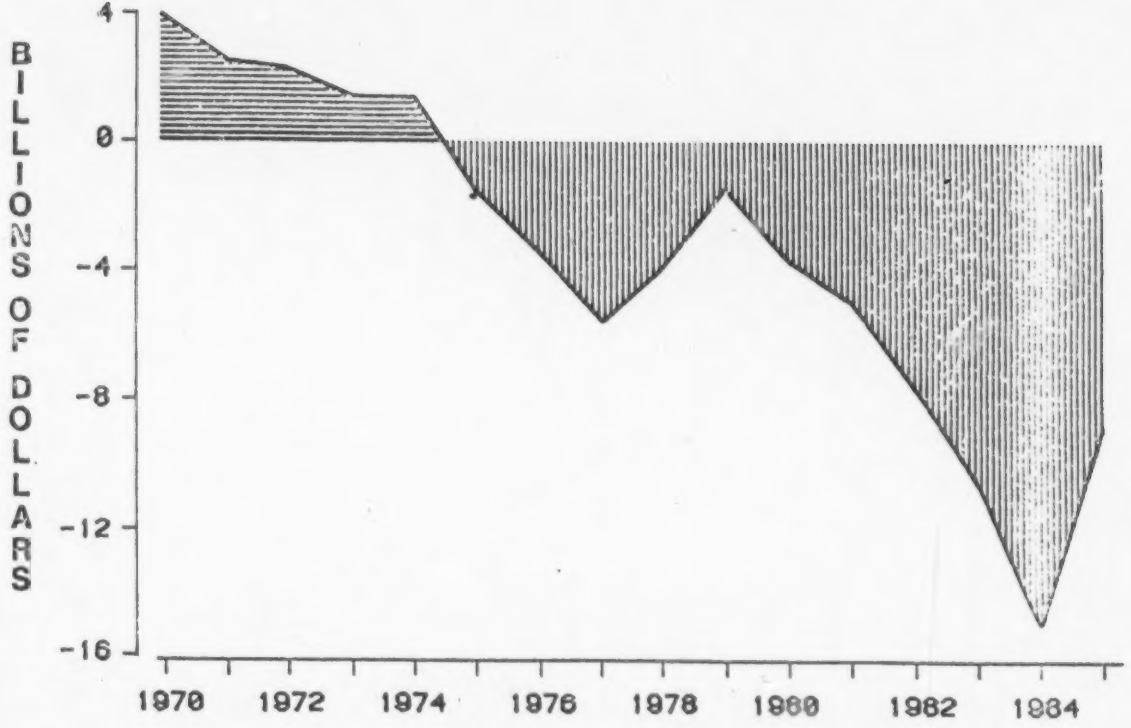
What is the appropriate level of income maintenance that should be supplied by social security? What combination of public and private effects will yield the desired standard of living in retirement without creating adverse effects on the economy? It is better to raise the retirement age or just encourage later retirement? What is the appropriate level for social security payroll taxes? I hope all the witnesses will address themselves to these questions.

The Congress, when it returns from August recess, will resume consideration of the social security issue. The House Subcommittee on Social Security has already formulated a long- and short-term reform bill which differs greatly from the administration proposal. The Senate Finance Committee has held hearings and plans to develop a proposal in September.

By all accounts, it is evident that something must be done. Social security is the financial lifeblood for most of its 36 million recipients. The system is in trouble and must be repaired. Inescapable facts frame this hearing.

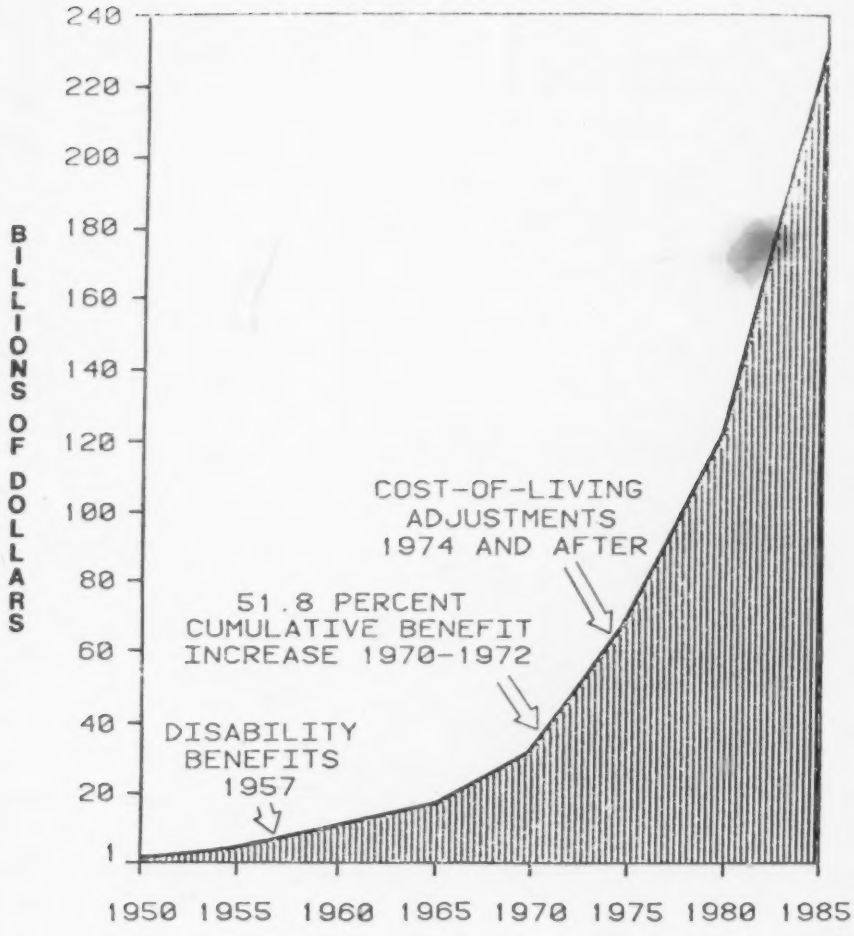
I have with me charts portraying the social security crisis. The first chart—and take a look at the red ink—paints in red the system's mounting deficit. Social security has operated in the red for 6 straight years, and by 1982, will not be able to pay full benefits. For all practical purposes, for the short range, just immediately ahead, the social security system will be insolvent. The concerns expressed by the President are to be fulfilled by that chart.

SOCIAL SECURITY'S DEFICIT



NOTE: 1981-1985 BASED ON INTERMEDIATE PROJECTIONS FOR OASDI

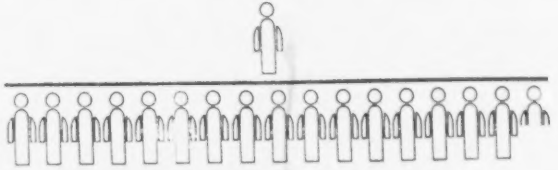
TOTAL ANNUAL EXPENDITURES OASI AND DI PROGRAMS COMBINED



NOTE: 1985 BASED ON INTERMEDIATE PROJECTIONS

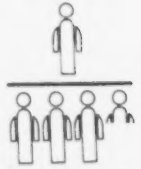
WHO PAYS FOR SOCIAL SECURITY

1950



16.5 WORKERS PAYING
IN FOR
EACH BENEFICIARY

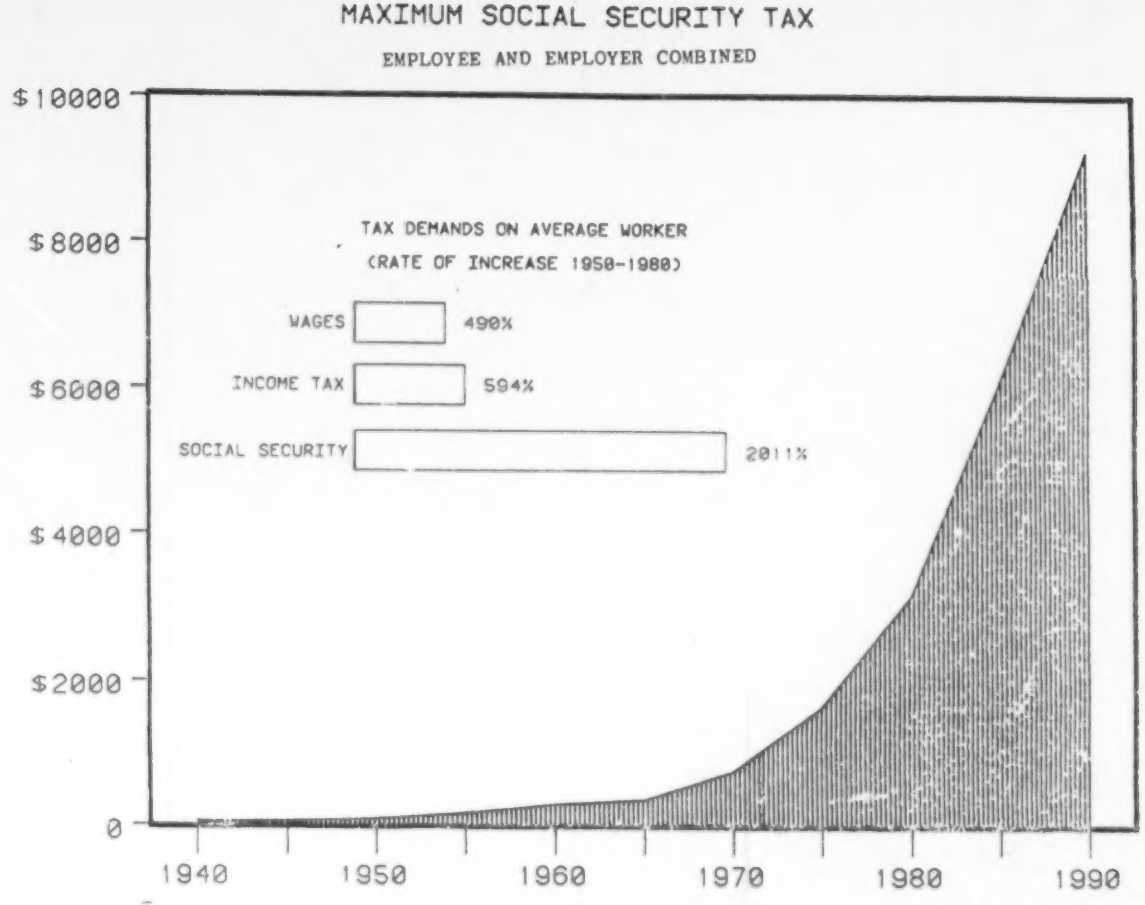
1980



3.3 WORKERS PAYING
IN FOR
EACH BENEFICIARY

2030

2 WORKERS PAYING
IN FOR
EACH BENEFICIARY


MAXIMUM SOCIAL SECURITY TAX
EMPLOYEE AND EMPLOYER COMBINED
$10000
$8000
$6000
$4000
$2000
0
TAX DEMANDS ON AVERAGE WORKER
(RATE OF INCREASE 1950-1980)
WAGES
490%
INCOME TAX
594%
SOCIAL SECURITY
2011%
1940
1950
1960
1970
1980
1990

Now, the question is, how did we get into this economic mess, in one of the greatest safety nets every placed under the citizens of this country, 36 million of whom now rely upon the operation of this system. The other charts tell the story.

The second chart shows the explosion in benefit payments since 1950. In 30 years, benefits have been adjusted upward 699 percent. $1 trillion has been paid out to the social security system. Average monthly benefits per person in 1935—how many of you can remember back in 1935—the average benefits paid monthly was $22. Today, the average exceeds $370. We are now to the point where in 1985 alone, total pension and disability benefit payments will exceed $220 billion. We are paying benefits in 1 year that equal one-fifth of the total benefits paid out over the last 30 years.

So we are wondering why we are in deep trouble, with taxes higher than they have ever been. It is simply that benefits being paid out are higher than they have ever been.

These benefits are financed on a pay-as-you-go basis. In other words, benefits paid today are being financed through today's social security payroll taxes.

The third chart shows the radical changes that have reshaped the American workplace and jeopardized social security's long-term survival. In 1950, there were some 16 workers paying for each person receiving social security benefits. In 1980, only three workers paid taxes for each beneficiary, and in slightly more than one generation there will be only two workers supporting each person drawing benefits.

Obviously, fewer people are carrying the burden. The result is dramatic, though not surprising. Social security taxes have skyrocketed.

Let me now show a fourth chart. In 1940, the maximum combined employer-employee social security tax was a mere $60 annually. Today, that tax exeeds $3,000, 50 times greater, and will rise to $9,000 per year by 1990. Incredibly, even with these higher taxes social security could have an accumulated deficit of $111 billion by 1985.

Let me just take a look at that last chart again, because I want to point out the inset there, if you can see it. Since 1950, real wages in the United States increased 490 percent, while Federal taxes increased 594 percent. Let's ask the question, what happened to social security taxes? They soared over 2,000 percent.

Should we seriously consider increasing social security payroll taxes even higher? That's a tough question.

Some believe the cure for social security problems is using general revenues. Social security trust funds have always been kept apart from the Federal Treasury. But our national debt has increased 27 times faster than our population. Should a Federal Government, with a trillion dollar debt add to it? You know what the interest cost is on that debt. The first day of that fiscal year, it is now over $100 billion a year, which used to be the total size of the Federal budget. That's inflexible. It must be paid. It's owed to all of us.

What is the problem, then, when we have had a national debt that has increased 27 times faster than our population? Should we bail out the social security system when deficit financing is today

one of the prime causes of inflation? It sounds like an easy answer, but all it does is add to inflation, add to the permanent debt that we have to carry or our children are going to have to carry. They are the ones that are now carrying the heavy load for social security. Their payments must pay off the beneficiaries who are out there.

There are those in Congress who have spent a great deal of time and effort lately, trying to convince the American people that there is no case for reform. I think you will agree, after hearing the testimony today, that this is not the case. Reforms are needed in the short term and in the long term if we are to guarantee the integrity of the system.

In the short term, it is possibly true that under very optimistic economic assumptions and a dangerously low reserve in the trust funds, we could squeak by with interfund borrowing and savings made by Congress in the Omnibus Reconciliation Act.

But I think we should learn from our experience with the 1977 amendments. At that time, it was widely publicized that "social security"—and I'm just quoting exactly what was said a few years ago, in 1977—"social security has been placed on a sound financial footing for the next 40 to 50 years." That's what we were told. In other words, there would be no short-term funding crises. But the assumptions used to make those projections proved overly optimistic. The economy performed badly. Benefit payments exceeded revenues. The largest of the trust funds, the old-age and survivors insurance trust fund, was projected to have insufficient funds in 1981.

Congress last year passed a temporary reallocation of the tax rates for this year to allow the 97th Congress the time to tackle the financing problem. Cash-flow problems have now been deferred until some time in 1982.

Based on this experience, I think we must pursue a much more cautious course. We can, of course, take the easy way out. We can gamble the benefits of millions of Americans on the hope that the economy will perform at the most optimistic pace. But I sincerely believe we would be doing a great disservice to all senior citizens by taking such a risk.

As your U.S. Senator and a member of the Senate Special Committee on Aging, and a long-time advocate of a decent way of life for all older Americans, I do not want to take that risk on your behalf. To do so would not only put in jeopardy the benefits upon which so many of you depend, but it would once again raise the specter of financing problems which drain public confidence in our social security system.

That is why I am here today. I want you, as representatives of all Illinois senior citizens, to have the story firsthand, and I want to hear what you have to say about the options before us. Let us work together—and I know of no better place to do it than a place which has been my home for over 60 years—to insure that the world's largest retirement and disability insurance program is secure and on a firm foundation for all of those who count on benefits today and the many more who will in the future.

BEST COPY AVAILABLE

As our first witness, I think we are very privileged indeed to have one of the ablest men I have ever worked with in this field. Paul Simmons was appointed Deputy Commissioner of the Social Security Administration on May 5, 1981. Prior to that he served as special assistant to my former colleague, Senator Dick Schweiker, now Secretary of Health and Human Services. Deputy Commissioner Simmons is not new to Illinois. He came to know us well when he served for 2 years as Governor Thompson's top assistant in Washington. I want to congratulate him on his appointment and to welcome him here today.

STATEMENT OF PAUL B. SIMMONS, WASHINGTON, D.C., DEPUTY COMMISSIONER, SOCIAL SECURITY ADMINISTRATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. SIMMONS. Mr. Chairman, if I could start on a personal note, I might say that in those 2 years that I represented the State of Illinois in Washington it was always a pleasure to work with the Illinois delegation under your leadership. It is a very effective delegation and I know that it is going to play a key role in solving the problems in social security. I think the interests of the people of Illinois are in exceptional hands.

I do appreciate this opportunity to come out and talk about these proposals here before this group, because we get too few opportunities to be able to bring the facts out to the people and to let them decide for themselves what the nature of the problem is and how best we might solve it.

As you well know, and as you so well pointed out in your opening statement, social security faces both a short-term financing crisis and a long-term actuarial deficit. An actuarial deficit is a technical way of saying that if we don't do something to change the numbers that are appearing in the future—and everything we do in social security is predicated on a 75-year projection; that's the only responsible way really to look down the road at a pension system—if we don't do something to make those numbers come out even, there is a problem down the road that will amount to something like $1.5 to $1.8 trillion over the next 75 years. That is 1½ times today's national debt, as you pointed out earlier.

The time for bland reassurances, and for further studies, or stopgap measures is obviously over. By late 1982, there just won't be enough money in the biggest of the trust funds to pay benefits unless the Congress and the administration get together and do something now.

The American people have been told repeatedly over the past several years by some individuals that social security will not go bankrupt. They are right in one sense. I don't believe that the Congress would ever let it happen. This administration certainly will do everything it can to keep that from happening. But the fact is that the Congress has repeatedly taken action to shore up the system's financing, as they did in 1977, for example, with the largest peacetime tax increase in history, and yet it hasn't done enough. There are still some underlying basic problems that have to be addressed, and we just can't go on lurching from year to year, from trustee's report to trustee's report, with the same old refrain of "we're going to go broke unless we do something." Our goal is to

do something, to do it right, to do it in a bipartisan manner, to do it in a way that protects people that are now on the rolls, and insures that the people who are now paying taxes into the system will have something coming back out of the system when they reach retirement age themselves.

I am submitting formal testimony and related materials for the record [1] which show, in a year-by-year fashion, the same kinds of numbers that you have here on your chart. I hope that will help the committee in its deliberation later on.

In developing our financing proposals we believe that the most prudent course is to use what we call "worst case" assumptions for the short term in order to provide an adequate margin of safety just in case unfavorable economic circumstances should arise. This is what we have done.

But there is one thing I would like to insert here. We have been accused by some in the Congress, and some in outside groups, of using too pessimistic a forecast for the next 5 years in order to justify the kinds of changes we think should be made in the system. But let me tell you—and I will submit later for the record a memo pointing out how this is so—that our "worst case" assumptions are actually better than what has happened in the economy over the past 5 years. We don't think that it is at all unlikely or at all impossible that such things could happen. Naturally we hope that the recent downturn in unemployment and the recent signs of reawakening economic growth will come true and that the economy will prosper. But to be responsible in social security we have to predicate our assumptions on rather pessimistic views. If that has been done in 1977, the Congress probably would have done much more to shore up the system and we wouldn't be in the crisis we are in right now.

[Subsequent to the hearing, Mr. Simmons submitted the following material:]

COMPARISON OF "WORST CASE" ECONOMIC ASSUMPTIONS WITH RECENT EXPERIENCE

[In percent]

	Average annual		
	Increase in real gross national product	Increase in real wages	Unemployment
1981–86 [1]	2.3	−0.6	8.5
1975–80	2.9	−1.1	7.0

[1] Worse case economic assumptions.

For social security (OASDI) financing purposes, the increase in real wages is the most critical factor. It is the net of the increase in average nominal wages (which primarily determines the growth of trust fund income) and of the increase in the CPI (which primarily determines the growth of OASDI benefit payments).

Mr. SIMMONS. Most of the points I have and the background part of my testimony have been pretty well covered by your presentation, by your opening statement. In the interest of time, I will submit all of this for the record and just talk for a few moments about what the principles are underlying our proposals and, in

[1] See page 15.

general, what some of the proposals are, so that people will get a better picture.

First of all, our principles are four—and the President has repeated these over and over again, Secretary Schweiker, Commissioner Jack Svahn, the Social Security Commissioner, have repeated them over and over again. We mean them, and I believe the Congress will accept them.

First and foremost, obviously, is to protect the integrity of the system itself, because this is the world's largest benefit system for older retired workers, survivors, and disabled people. We want to protect that. We want to make good on the 46-year promise of the system. It has been there for 46 years and we expect it to be there for many generations to come.

Second, we want to hold down, if we can, the increasing tax burdens on current workers who finance social security. As you point out, there are only 3.2 workers now financing each retiree. Back in 1950 there were 16. In 1960 there were five. In another 30 or 40 years, when the baby boom generation reaches retirement itself, it will be down to two workers. If the tax burden for the system gets too heavy on the workers who are supporting it, then you can see the beginnings of what Senator Armstrong has pointed up, that there could be an intergenerational resentment built up. I think this would be more damaging to the fabric of this society than almost anything else that could happen to us.

Third, we want to eliminate some of those anomalous features and abuses that have been allowed to creep into the system over time. There are some benefits in the structure, which we can go into in the question-and-answer session, which are duplicated now in other programs and it makes no sense to pay for them out of trust fund moneys when the trust fund moneys are barely sufficient to pay for basic benefits.

Finally, we want to finance the permanent ongoing benefit provisions solely from the payroll taxes and not from general revenues. And as you suggest, there are no general revenues, and any new general revenues, or any general revenues that would be put into the system, would merely be a tax increase by another name.

If, for example, we were to cover the short-term deficit that we see with general revenues, it would be the equivalent of a 5-percent surtax on income tax in this Nation. And when the Congress has just gotten through going through one of the largest tax relief measures in history, it is hardly likely that they are going to turn around and increase the deficit or increase general taxes in order to pay for something which should be paid for out of a disciplined trust fund.

Our proposals have been misunderstood. Some of them have raised more fire than others, and some of them have been generally accepted. But in general, let me just say that when we set out to make these proposals, we tried to do several things. First of all, we wanted to stand by the traditional retirement age of 65 and not raise it. And in order to do that, we have had to propose that early retirement benefits be somewhat reduced in order to encourage people to say in the work force longer. But we think that age 65 is the basic social commitment of the social security program and it

has been there since 1936 and we think it should remain. We think it should not be raised.

Second, we do not propose raising taxes or using general revenues, because of the reasons which you have already outlined and that I have just outlined.

Third, in order to further keep people in the work force, if they so desire, we propose phasing out the retirement earnings test. We think it is very unfair now that a person over 65 but below the age of 72 is penalized if he or she wants to continue working, or has to continue working, to supplement their retirement income. If that same person owns an apartment building or has a huge income from some other kind of investment, there is no penalty. It is only on wages earned that there is a penalty under the Social Security Act. We think that is unfair and we propose it be removed.

Senator PERCY. If I may just comment on that editorially, as a Senator, I have long advocated that. I have felt it a terrible penalty for people. I think it invades their lives. Many of them want to work. They need work. They need to feel important and a part of something. And to have a penalty for working just seemed to be absolutely wrong. I really admire the administration for embracing that particular aspect of reform.

Thank you.

Mr. SIMMONS. It has been very misunderstood, this proposal. People are saying, "Why should you propose doing away with the revenues that come in from that penalty at a time when the system is going broke?" But we think to encourage people to stay in the work force is going to generate a lot more in general revenues for the health of the Government. A lot of people who are in that category are people who own businesses, small businesses, and so forth, and who are in a position to hire people. There are many people in their sixties and seventies who are extremely productive, probably in the most productive years of their lives, and we are penalizing them for it. We just think it's dumb and we want to get rid of it.

Senator PERCY. I know there is disagreement on this particular point. I discussed it with some of my friends in labor, and certainly we're having a dialog back and forth. I am trying to see it from their standpoint also. But on balance, still, I have felt that in the end we can do that, it probably will work out.

Again, it is one of those subjects not set in concrete. The purpose of this hearing is to hear different views. We will certainly hear different views on that particular issue. My position has been clear up to this point. But nothing is final at this point as to what we will actually do in September and October to save the system.

Mr. SIMMONS. I think there is one point that people seem to ignore, those who oppose this position. Most people generally agree there should not be a means test on social security. One of the reasons we are so against going into general revenues to shore up the system is that once you do that you're only one step away from doing a means test on all social security. If the deficit were to grow, in order to make up for the shortfall in social security Congress would be finding itself turning around and saying, "Well, maybe we should not give social security to those who have income," as we now take it away through penalty mechanism, and

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"maybe we shouldn't give it to somebody who has an inheritance; maybe we ought to ask everybody, 'Do you really need social security?'" This takes away the basic idea of social security, that it is an earned benefit and something that is returned to people after they pay into the system all of their lives. There are formulas in the law that say if you work in covered employment and you pay your taxes all your life, you are entitled to get something back. We think it is none of Government's business whether or not you need the money. The fact is you bought the benefit just as you buy a private insurance policy and the fact is you should get the money back.

If I could just wind up my prepared statement here by just talking generally about what our proposals do.

First of all, in order to meet our four principles of preserving the basic benefit system, preserving the benefits of those now on the roles, the retirement age, et cetera, we are proposing that some welfare-oriented elements which have crept into the program be taken out of the program. Those are primarily elements that are duplicated in other programs, such as student benefits, and even the minimum benefit.

No. 2, we have several proposals—and there seems to be broad support on the Hill for these—to relate disability insurance more closely to a worker's earnings history and medical condition.

Under present law, for example, you can be out of the work force for 5 years and still qualify for full disability benefits. There is no private insurance plan in the world that would pay benefits to you 5 years after you stopped paying premiums on it.

There are other programs to catch people who may truly need the money. We think the current level of disability funding is just too much and that the program has gotten too far away from the workplace.

Third, we are proposing that we reduce the opportunity for windfall benefits which can now mean higher monthly benefit checks to short-term "double-dippers," as they are called, than to a low wage earner who has spent a lifetime contributing to the system.

Fourth, we want to do more to encourage people to stay on the job, and as we have just discussed, we are doing that through reducing early retirement benefits and taking away the penalty for those who want to stay in the labor force after they turn 65.

Last, we want to restrain the growth of the benefit structure. As one of your charts so well pointed out, the benefit curve has gone up radically in the last several years. Part of this is because of a basic mistake that the Congress made in 1972 in double-indexing the system. The Congress tried to correct that in 1977 by gradually lowering the benefit structure over the next several years and that part of the law is still in effect. We think it should go down about 3 more points—that's all, just 3 points on the wage replacement rate—and that will insure the actuarial soundness of the system for the foreseeable future. And for us, the foreseeable future is 75 years.

With that, Senator, I would be glad to answer any questions.

[The prepared statement of Mr. Simmons follows:]

Prepared Statement of Paul B. Simmons

Chairman Percy, I appreciate the opportunity to appear before you today to discuss the financial condition of the social security program.

As the members of this committee know all too well, social security faces both a short-range financing crisis and a long-range actuarial deficit. No matter whose economic forecasts or assumptions you use, the basic social security program is going to be unable to meet its commitments to millions of Americans unless some legislative action is taken, and taken soon. The time for bland reassurances and for further studies or stopgap measures is over—by late 1982 there just won't be enough money in the OASI trust fund to pay benefits to retirees, to widows, and to orphan children and their mothers.

The American people have been told repeatedly over the last several years by some individuals, that social security will not go bankrupt. And the Congress has repeatedly taken action to shore up the system's financing with large tax increases and measures to help control the growth of benefits. But here we are again faced with the threat of bankruptcy and a continuing threat of insolvency in the long run, which seriously undermines public confidence in social security.

CURRENT PROJECTIONS AND STATUS OF TRUST FUNDS

The following table shows the estimated operations of the old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI) trust funds, under "worst ease" economic assumptions. In developing social security financing proposals, we believe that the most prudent course is to use such assumptions so as to provide an adequate margin of safety just in case unfavorable economic circumstances should arise. These projections show the status of the trust funds if present law is not changed.

ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS UNDER PRESENT LAW, BASED ON PESSIMISTIC ECONOMIC ASSUMPTIONS, CALENDAR YEARS 1980–86

[Amounts in billions]

Calendar year	OASI	DI	OASDI	HI	Total
Income:					
1980	$105.8	$13.9	$119.7	$26.1	$145.8
1981	122.7	17.0	139.7	35.3	175.0
1982	132.7	23.9	156.7	40.3	196.9
1983	143.0	27.1	170.2	44.7	214.8
1984	159.7	31.3	191.0	50.8	241.8
1985	184.9	41.0	225.9	59.2	285.1
1986	205.1	47.3	252.3	70.6	322.9
Outgo:					
1980	107.7	15.9	123.5	25.6	149.1
1981	126.7	17.9	144.6	29.4	174.0
1982	147.7	20.0	167.7	34.4	202.2
1983	171.5	22.4	193.9	40.5	234.4
1984	196.4	24.8	221.2	47.9	269.1
1985	222.6	27.4	250.0	56.2	306.2
1986	249.0	30.1	279.1	65.4	344.5
Net increase in funds:					
1980	−1.8	−2.0	−3.8	.5	−3.3
1981	−4.0	−.9	−4.9	5.8	1.0
1982	−15.0	3.9	−11.1	5.8	−5.2
1983	−28.5	4.8	−23.8	4.2	−19.6
1984	−36.8	6.5	−30.2	2.9	−27.3
1985	−37.7	13.6	−24.1	3.1	−21.0
1986	−43.9	17.2	−26.8	5.2	−21.5
Funds at end of year:					
1980	22.8	3.6	26.5	13.7	[1] 40.2
1981	18.8	2.7	21.6	19.6	[1] 41.2
1982	3.9	6.6	10.5	25.4	[1] 35.9
1983	([2])	11.4	([2])	29.6	[1] 16.3
1984	([2])	17.9	([2])	32.5	([2])
1985	([2])	31.6	([2])	35.5	([2])
1986	([2])	48.8	([2])	40.8	([2])

ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS UNDER PRESENT LAW, BASED ON PESSIMISTIC ECONOMIC ASSUMPTIONS, CALENDAR YEARS 1980–86—Continued

[Amounts in billions]

Calendar year	OASI	DI	OASDI	HI	Total
Assets at beginning of year as a percentage of outgo during year:					
1980	23	35	25	52	[1] 29
1981	18	20	18	47	[1] 23
1982	13	14	13	57	[1] 20
1983	2	30	5	63	[1] 15
1984	([2])	46	([2])	62	[1] 6
1985	([2])	65	([2])	58	([2])
1986	([2])	105	([2])	54	([2])

[1] Assumes interfund borrowing is in effect.
[2] Trust fund is exhausted, and so benefits could not be paid.

Under these very pessimistic assumptions, the OASI trust fund will have insufficient funds to pay monthly benefits by the latter part of next year. Under these assumptions even if, as we have proposed, the OASI trust fund could borrow from the DI or HI trust funds to meet the deficits, the combined funds would be exhausted in late 1983. So you can see that while interfund borrowing may be a valuable and necessary interim device, by itself the problem is only postponed by about a year. As things stand, without changes, the deficit of the social security program would, under the pessimistic economic assumptions, be $111 billion during the next 5 years.

Under the administration's economic assumptions, the exhaustion of the OASI trust fund will still occur in 1982 if no change in the present law occurs, although deferred for a few months. In fact, under almost any reasonable economic assumptions, the OASI trust fund will be at an insufficient level to pay monthly benefits in the latter part of 1982, or at most in early 1983.

I am pleased to be able to tell you that the trustees of the OASI, DI, and HI trust funds met on July 2 and concurred in the respective trustees reports for 1981. The reports were transmitted to the Congress July 6. I must tell you, however, that the OASI trustees report that you received does not differ greatly from the 1980 report with respect to either the short-range or long-range actuarial status of the OASDI system. Under all sets of assumptions, the 1981 OASDI trustees report shows that, under present law, the assets of the OASI trust fund will become insufficient to pay benefits timely in the latter part of 1982. You will notice a departure from past practice this year in that we show two sets of intermediate economic assumptions, reflecting the estimated progress of the funds under relatively more favorable and relatively less favorable experience in economic growth. Under the two sets of intermediate assumptions, the combined OASI and DI trust funds show an average deficit over the 75-year valuation period of 0.93 and 1.82 percent of taxable payroll. Under even more pessimistic assumptions, the average deficit in the OASDI system is estimated at 6.25 percent of taxable payroll.

In examining the causes of the current crisis, a review of recent experience is instructive. The assets of the combined OASI and DI trust funds have fallen continually since 1974. The fund ratio—the assets on hand at the beginning of the year expressed as a percentage of the outgo during the year—fell from 103 percent for 1970, to 66 percent for 1975, and then to only 25 percent for 1980, and 18 percent for 1981. The drawdown of the assets of the trust funds has masked the fact that outlays have exceeded revenues each year after 1974.

Only 4 years ago, there was the largest peacetime tax increase in history, which was supposed to have placed the social security system on a sound financial basis for at least the next 40 years. The grim recital of these figures illustrates the enormous damage that can be done to the balances in a very short period by unanticipated downturns in the performance of the economy. Even while we work to restore growth, we must prepare in advance for unexpected shocks. There will be no time to react in the future, because there is now no margin for slippage in the trust funds.

The element in the cost estimates with the greatest effect is the projection of real growth in wages—i.e., the excess of the increase in wages over the increase in the CPI. When wages do not keep up with inflation, increases in social security tax revenues do not keep pace with the increase in expenditures arising from the automatic adjustment of benefits to prices. In 1977, the board of trustees assumed that real wages would grow by an average of 2.5 percent per year in 1977 to 1980.

The reality, however, was that real wages actually declined by an average of 1.5 percent during that period.

This example highlights past difficulties in relying on predictions of economic performance, that by their very nature are inexact and volatile, to provide a rationale for taking minimal action to insure the financial integrity of social security. In early 1981, some economic indicators have been more positive than earlier predictions, but people can read too much into these shortrun fluctuations. As for the economic predictions themselves, commonsense will tell you that when they cover such a wide range and change so often, you would not want to bet your next paycheck on them, let alone the benefit checks of millions of American people. The prudent course is to prepare for the worst, while striving to adopt policies which produce the best. By using assumptions that allow for real-world domestic and international economic contingencies and the range of possible economic performance, we are acting on the side of prudence.

As you know, social security is financed on a pay-as-you-go basis. Current contributions are, on the whole, used to pay current benefits, and the balances in the trust funds act as a contingency reserve. Any discussion about maintaining appropriate trust-fund levels involves determining the amount of assets that is adequate to provide a margin of safety against economic variations and other contingencies, so that benefit commitments can be met even if payroll tax revenues are temporarily reduced.

An important, accepted measure of adequacy of the trust funds is the fund ratio—the ratio of the assets at the beginning of a year to the total outgo during the year. For the OASI and DI trust fund, if income is exactly equal to expenditures each month over the course of a year, the fund ratio must be at least 9 percent to assure that there will be sufficient funds to meet current benefit commitments. A considerably larger ration is required, however, to assure adequate funds in the course of normal fluctuations in income and outgo, and to provide a margin of safety if economic conditions worsen.

The 1979 Advisory Council on Social Security recommended that a ratio of at least 75 percent be present before the start of a recession, in order to provide an adequate cushion and allow sufficient time to take remedial action. The National Commission on Social Security recommended that a ratio of 100 percent be developed over time. Naturally, we all wish that the trust funds were now at these levels. As a matter of prudence, I personally believe that a level of at least 50 percent is reasonable, and that once the financial integrity of the system is restored, a fund ratio of at least 50 percent should be maintained as nearly as possible.

LONG-RANGE CONSIDERATIONS

While it is possible for analytical and discussion purposes to separate the short- and long-run financing of social security, as a practical matter the two are inseparable. What we do for the short run has impact, obviously, on the long run, and so it is necessary to view them together.

Of course, there are different factors affecting the long-range picture which do not affect the short run. The primary cause of the long-range financing problem is the anticipated demographic changes. Some 50 years from now, the Nation will have a very large retired population being supported by a smaller relative number of workers than at present. Intermediate projections indicate that, by 2030, there will be 2 workers per social security beneficiary, as compared with a ratio of 3.2 workers per beneficiary today. Put another way, while the total population is estimated to grow by about 40 percent over the next 50 years, the population aged 65 or older will increase by about 150 percent. Growth in the very oldest portion of the population will be greater still—those over age 85 will triple.

This change in the age structure of the population will have a growing effect on social security. Despite cash-flow problems in near-future years, under the more optimistic intermediate assumptions of the 1981 trustees report, the OASDI system will have an excess of income over outgo averaging 1.27 percent of taxable payroll over the next 25 years. However, the picture changes drastically when the post-World War II baby boom reaches retirement age. A deficit of 0.67 percent of payroll is shown for 2006–30, while for 2031–55, it is 3.39 percent of payroll. Under the less optimistic intermediate assumptions of the 1981 trustees report, these figures would be 0.43 percent, −1.47 present, and −4.41 percent, respectively. Under the pessimistic assumptions, there is a deficit of 5.10 percent of payroll for 2006–30 and 13.03 percent for 2031–55. These deficits would intensify and continue beyond the end of the usual 75-year planning horizon, representing an ongoing concern.

One point to bear in mind is that these are projections, not certainties. They represent the best estimates of capable actuaries, based on the best information available. As I said earlier, economic and actuarial forecasting is an inexact science.

However, despite many uncertainties, there is no doubt that a major demographic shift will occur in the next four decades. Therefore, it is important to act now to insure the integrity of the social security system for the relatively large, aged population which will be present in the 21st century.

Restoring the system's financial integrity will not be easy, popular, or painless. There are really only two basic solutions available—restrain the growth of benefit outgo or increase taxes.

Increasing the social security tax rates to cover whatever the current programs requires would be both unfair to current taxpayers, who have to bear the tax burden, and a serious drag on the economy. The apparent alternative of turning to general revenues for additional financing is not really a viable or proper option. The current congressional budget process makes it very clear that there really are not any uncommitted general revenues present to turn to for social security. Any general revenues for this purpose would have to come from new or increased taxes of other types. This would mean that additional taxes would need to be paid by—and be a burden on—the same people who now pay social security taxes. The remaining option of slowing the growth of the benefit outgo under the program is the only real choice.

The administration's initial budget proposals were a first step toward that goal. Subsequent to these proposals, the administration has developed further proposals to reform the program. These proposals will overcome social security's serious funding problems by eliminating excessive incentives to claim benefits early, by removing penalties for continued work efforts, and by lessening the emphasis on the social adequacy or welfare aspects of the system at the expense of its basic purposes.

We are prepared to work with interested parties to improve our set of proposals to deal with the fundamental problems. However, we are committed to the following principles:

(1) Preserve the integrity of the social security system, the basic benefit structure that protects older Americans.

(2) Hold down the tax burdens on current workers, who finance social security.

(3) Eliminate the anomalous features and abuses in the system.

(4) Finance the permanent, ongoing benefit provisions solely from visible payroll taxes—and not from general revenues, which in reality involve other, hidden taxes.

Generally, our proposals would restore social security to program and financial soundness by:

(1) Relating disability benefits more closely to a worker's recent work history and medical conditions. For example, we propose a requirement of, in essence, 7½ years of covered work (rather than the present 5 years) in the 10-year period preceding disability and the elimination of vocational factors in determining disability.

(2) Encouraging workers to stay on the job at least until the traditional social security retirement age of 65. For example, this would be done by reducing to a greater extent the benefit amounts for people who retire early and by not paying benefits with respect to their children.

(3) Reducing the social-adequacy (or welfare-oriented) elements that duplicate other programs. These have been overemphasized in recent years. For example, we propose the same maximum family benefit for families of retired and deceased workers as is now provided for families of disabled workers.

(4) Lowering by about 3 percentage points the future replacement rate of a worker with average covered earnings—that is, the initial benefit as compared with recent preretirement earnings. This would be done be moderating, for the next 6 years, the indexing of the initial benefit formula computation. This would be done so as to adjust for benefit overliberalizations made in the early 1970's, which substantially exceeded the increases needed then to keep pace with changes in prices.

(5) Reducing the opportunity for "windfall" benefits—that is relatively high benefits payable to persons who spent most of their working lifetime in noncovered employment, and only a short time in covered work.

These reforms would have very little effect on the 36 million beneficiaries now on the rolls or on the several million persons now aged 62 or over who are eligible for benefits but not receiving them because of employment or other reasons.

CONCLUSION

If these proposals and those that we proposed in April reflecting the administration's budget are enacted, the social security system will be financially viable in the short range and well into the next century. This can be stated without qualifications concerning the state of the economy in the short run. Under the pessimistic economic assumptions, the combined social security trust funds will not decrease below 17 percent of annual expenditures in the next few years. Quite naturally, the program would be in more favorable financial condition in the short run according to the

estimates based on the economic assumptions which reflect the effect of the administration's program for economic recovery. Under these more realistic economic conditions, the low point for the fund ratio would be reached next year, at 22 percent.

It will be possible, even under pessimistic economic assumptions, to have a somewhat smaller social security tax-rate increase in 1985 than that now scheduled. Then, in 1990, the social security tax rates can be decreased below the current level. The present tax rate for employers and employees of 6.65 percent each is scheduled to go to 7.05 percent in 1985, and this rate could be decreased to 6.95 percent. Similarly, the 1990 scheduled rate of 7.65 percent could be 6.45 percent. If the economy improves at a more rapid rate—as we anticipate that it will under the President's program for economic recovery—the tax rates could be further reduced.

If strong actions are not now taken, the social security system faces financial insolvency. The economic security of the millions of people who now receive social security benefits, and the many more millions who expect to receive them in the coming decades, is threatened. Under the administration's proposals, these future benefits will be paid, even under the pessimistic economic assumptions.

We recognize that there are other possible ways to deal with the financial problems of social security. We are working with congressional leaders to develop mutually agreeable solutions to the social security financing crisis. I should emphasize that, although there may be room for debate over the specific details of our proposals, we strongly believe that any alternatives must meet the fundamental objectives mentioned earlier.

Senator PERCY. Thank you very much, indeed.

The first question I would like to take comes from testimony to be given by Carl Renshaw.

Mr. Renshaw mentions an article in a recent issue of the Christian Science Monitor, which quotes David Stockman, Director of Office of Management and Budget, "Without remedial action, the most devastating bankruptcy in history will occur on or about November 3, 1981." The Social Security Administration's own actuaries predict that the retirement fund will be out of money by 1984, as reported in the August 10 issue of Time.

Could you comment on which one is accurate, or are they both accurate, and what is the degree of concern and crisis?

Mr. SIMMONS. Well, there are two points to your question there. One is, obviously that statement about the "greatest bankruptcy in the history of the world" and all that. One of our problems in the entire debate, as you know, over social security is to convince people that yes, indeed, there is a problem, because there are people out in the hustings and people on the Hill—a very few on the Hill, but they are vocal, nonetheless—who are saying there is no problem that a little bit of interfund borrowing won't solve and all that. That is why we have to keep saying, unless we do something, there will be a problem in the fall of 1982. The fact is, we are confident that something will be done.

No. 2, the Time magazine article was obviously based on an erroneous Associated Press story, which we corrected with a letter to the congressional leadership and to the editors of the Associated Press. They did run a correction story on it later but, of course, that story did not get played the way the first story did. The first story seemed to contradict the real world as everyone knows it, and therefore made news. And when it was pointed out that the reporter had made a basic error on the story, they did issue a correction. But the correction didn't get any play at all.

So the fact is that, even under relatively optimistic assumptions, even if the economy goes very well over the next year or so, the shortfall in the trust fund, the old-age and survivors trust fund itself, the biggest of them, will go under maybe as early as

November or October of 1982, or maybe under the best of conditions in the spring of 1983. The numbers are just there, and as you pointed out on that one chart with the big deficit, we have been going downhill for the last 7 years. The numbers just aren't there to support payments.

If the level in the trust fund falls below 13 percent at the beginning of any one year, then we know at some time during that year we will be unable to make payments in a timely way. If it falls below 8⅓ percent, or whatever one-twelfth of 100 percent is, at any one month, then the checks just can't go out. There is no money and there is no provision to get money any other way.

We have proposed interfund borrowing, to borrow from the relatively healthy hospital insurance and disability insurance trust funds. That is part of our package and that will help get us over this hump. It will help on a cash-flow problem. But the hospital insurance trust fund which supports medicare has its own problem coming down the road, as you know. About 10 years from now there is going to be a sudden problem there. You can't look to the hospital insurance trust fund to bail out the other for very much longer.

I might add, too, just to get this on the record here—because you will hear later how interfund borrowing is the answer to everything perhaps—that right now, today, even as we sit here, all three trust funds combined are losing money at the rate of $12,300 per minute. That is per minute, every day, 24 hours a day.

If you take out the health insurance trust fund, which is making about a $6,000 profit per minute—if you can call it a profit—the OASI and the DI, the disability trust funds, together, are losing $18,800 per minute. That's just a mathematical fact.

At some point, unless there is a significant raise in taxes, or a significant lowering of expenditures, at some point it has got to go broke. Whether that point happens in November, October, or December of the year, will depend on the economy.

Senator PERCY. You are saying that at some time, unless we do something, some time certainly within the next year, it could be possible, unless remedial action were taken, that there would be a failure to send checks out?

Mr. SIMMONS. Yes, that could happen. As we say, in the worst case it would happen in the fall of 1982. And what it would mean probably, from a practical point of view, is if the Congress were to do nothing—and we don't think for a minute that is going to happen, obviously—but if the Congress were to do nothing and we just sat and waited, then at some point when there wasn't enough money in the trust funds to send out any kind of check, we would just have to wait until the trust fund had enough and then we would send the checks. So the first time around it may be a 2-week delay; the second time around, it may be 1 month, or 3 months, or whatever. It all depends on how the economy performs. But I have full confidence, as I know you do that we will solve it.

The chairmen of the relevant committees on the Hill, Chairman Pickle and his ranking minority member, Mr. Archer, have been way out in front on this issue. They have a bill percolating along. It is a significant bill that calls for changes that would amount to over $100 billion over the next 5 years. They agree with our fig-

ures, although they would use general revenues, which we oppose. Otherwise, there are many elements of that bill we can support. That bill is ready for markup and almost ready to go to the floor.

The Senate committee, as you pointed out, has already started hearings, and Senator Armstrong is fully committed to doing something, and I think he will. I think he is going to see to it that there will be a bill before Thanksgiving, and we can put this matter behind us, and get on with making the system work better.

Senator PERCY. Then can I ask you to draw upon your extensive experience with the Congress and the extensive experience that Secretary Schweiker has had as a U.S. Senator, the contacts you have with the White House, the contacts you have with Congress, are you reasonably confident that we will not have any recipient of social security, this year, next year, and the following year, who will fail to receive a check because you are confident enough that we will take remedial action?

Mr. SIMMONS. I am very confident, as confident as you can be when you have 535 people to deal with. But I have great faith. I think this system is too important to the people. There are 115 million people paying into it, and 36 million people receiving benefits out of it. It is part and parcel of the fabric of this society. We are not going to let it happen. But we have made some mistakes in the past—and there is enough blame to go around. Both parties have made mistakes. We have had Presidents of both parties and we have had Congress led by both parties that have compounded errors over the years, and nobody intended to do that. But there are times when too many benefits were added.

There was one time, for instance, from 1969 through 1972, when the Congress increased the benefit structure by 53 percent and inflation was only 21 percent for the same period. There are things like that that have been done which are now coming home to roost. In times when the money was rolling in, and it seemed like it was always going to be rolling in, maybe things like that made sense. It certainly made political sense. Now we have got to bite the political bullet and say there have got to be some changes made. What we have got to do is fashion a set of changes that does not hurt people who are now on the rolls, but does protect the taxpayers who are now paying into the system to the point where they will have a system to look forward to when they get to retirement age.

Senator PERCY. Speaking as a practical politician now, taking into account the economic recovery program and a strong and effective President who is committed now to saving the social security system, does that help insure 36 million people that we are going to resolve this problem and that they can look to that strength as a source of comfort to insure that they will not be losers in this battle that we're going to have on reform.

Mr. SIMMONS. Yes, I certainly hope that will be the case.

Let me say as evidence of his commitment to the system and to the people on it, you will note that he, almost alone, has not proposed—and as a matter of fact has opposed doing anything about the cost-of-living increase. His belief is, the President's belief is, that it is Government's job to get inflation under control, and that if Government does perform as he hopes it will, if the marketplace does perform, if inflation does go down, then the cost-of-living

issue will take care of itself. But he does not propose that anyone lose the cost-of-living protection that is built into the system.

When you have Democrats and Republicans alike on the Hill who are saying that's the answer to the whole problem, to take away their cost-of-living increase or reduce the cost of living by some other index and that will solve the problem, the President is saying "Don't do that." He has promised he won't do it, and he will fight that down to the last negotiations on getting a bipartisan bill. He may be forced to accept some change in the cost-of-living thing if the Congress so rules, but he is not proposing it and he is opposing it.

Senator PERCY. In my opening remarks I noted that the President had just conceded that there are needy people who will be hurt with the elimination of the minimum benefit. How do you propose to protect these people if you do not support a full restoration of the minimum benefit for current beneficiaries?

Mr. SIMMONS. We have, as you know, in the reconciliation bill as passed. Part of that problem was taken care of by the addition of a grandfather clause which would insure that one group of people whose age did not fit the law would be eligible for supplemental security income. We are, as part of our process in working on the minimum benefit amendments, we are going through every single one of the 3 million case records. We will find those people who may fall through and who may not be eligible for some benefit, and we will make sure there is language proposed to the Hill which would take care of that problem.

The President is very committed to that. As he said, when we started off on the minimum benefit—the minimum benefit provision is way back from January, from very early on. This was not part of our basic social security reform package—the idea was to get at those who were getting a windfall benefit, the double-dippers. Most of the people on the minimum benefit are eligible for or are already receiving something else anyway, which is worth more than the minimum benefit. There are not 3 million people out there who are being grossly affected by this. It is really a relatively small number who may fall through the cracks. But he has said if there is any group that is overlooked in that bill as it stands now, we will fix it. And he means it.

Senator PERCY. As you know, Mr. Simmons, immediately after statements were made on behalf of the administration on social security, I respectully took exception to some of those statements. I did so with some concern, but immediately cosponsored a resolution offered by Senator Dole, which the Senate passed by a vote of 96 to 0, against abrupt changes in the social security system.

The President in a sense said, "Well, I have gotten your attention. You don't agree with some of my approaches. Therefore, let's work together to resolve this problem." That is the partnership we have now established bipartisanly, and certainly not only Senator Dole, but Senator Heinz has played a leading role now in protecting the rights of social security recipients.

Do you agree that it is only a matter of equity that any major changes should be phased in over a longer period of time with sufficient notice to all of the recipients?

Mr. SIMMONS. You remind me of a remark that Commissioner Svahn made the other day, that the reason we are so confident of a bipartisan solution is because the criticism has been so bipartisan. That 96-to-0 vote is certainly evidence of that.

Yes, any changes obviously are going to have to be phased in. When we proposed a series of reforms, the only benefit change that really drew a lot of criticism from around the country was that early retirement change. We proposed that to position ourselves on one end of the spectrum which runs all the way from, shall we forbid early retirement altogether, to, shall we raise the retirement age and not leave anybody eligible for benefits until they are 68? There are many ways to do this. Congressman Pickle, for example, would decrease early retirement benefits to 64 from 80 percent. Few people have noticed that and no one has criticized him for it yet. But he would do it gradually over a period of time. But he would also make you wait until age 68 for full benefits. We say reduce the early benefit at 62 and make it a sliding scale up to full benefits at 65, which effectively means that if you wait 1 year and 8 months past 62, you will get the 80 percent that you now get at 62. It is a 1-year-and-8-month difference, but that could make all the difference in the long run.

But yes, that will have to be modified, obviously. The Congress has spoken and it will be phased in. We will have to find some level of savings from some other part of the program to make up for it.

Senator PERCY. A question so frequently put to me is, "Does the administration support social security coverage for Government employees?" The question is why Government employees aren't brought into the social security system.

Could you respond briefly on that, and then expand it for the record?

Mr. SIMMONS. We looked at that, and we saw there are two problems there. One is actuarial. The Federal pension system which would have to be merged in, is in worse shape than our system, than the social security system. It has an unfunded liability that is even larger than ours, because the Congress does not appropriate enough money to pay its bill on that, or to put money in the bank.

No. 2, the real problem with the Federal coverage, we believe, is a perception problem. People rightly say, "Why is it you're not covered, and so forth." Well, obviously it is because the clout of Federal employees on Capitol Hill is out of proportion to their real numbers.

But what we have proposed is a windfall benefit clause in our proposals which would effectively do away with the abuses that are now out there and which cause people to raise that question. We would make sure that someone who was on a big Federal pension is not going to get a big social security pension, too. That, I think, will solve the problem and also save some money for the system.

Senator PERCY. Another question that is raised so frequently is that some people say, "Well, why should anyone retire at age 62? That's too early to retire. We're all living longer and they don't have to really retire until age 70."

What percentage, Mr. Simmons, of persons electing to retire at age 62 do so because of ill health or because they simply do not have a job?

Mr. SIMMONS. One study that was done back in the 1970's said that something like 70 percent of people claimed that those are the conditions under which they retired at that age. We really don't know. We are doing a study now to find out for sure because there is a lot of misinformation out there about who does what and for what reason.

One reason that so many choose disability, for example, as an early retirement benchmark is that you get full benefits at age 62 if you can quality for disability, but only 80 percent if you qualify just as an early retiree. So very many of those people who say that they are retiring because they are disabled are doing so because they could prove to the satisfaction of the system, which is very loose in this definition, they could prove to its satisfaction that they were entitled to 100-percent benefits. That is where some of that number comes from.

Senator PERCY. Thank you very much, indeed. We will have a question or two for you for the record. Thank you again, Paul, very much for being here.

Mr. SIMMONS. Thank you, Senator.

[Subsequent to the hearing, Senator Percy submitted questions to Mr. Simmons. Those questions and Mr. Simmons' responses follow:]

Question 1. A recent letter written by Deputy Commissioner Robert Myers indicated that the short-term financing problem is not confined to the 1982–86 time frame despite the savings made by the Omnibus Budget Reconciliation Act. Could you elaborate on the post-1986 cash shortfall? Does this mean that more savings will be required than originally anticipated by the administration in its social security reform package or was the post-1986 problem taken into account?

Response. As Mr. Myers stated in his letter, the financial integrity of the social security program must be assured over the short-run by using worst-case economic assumptions in determining its financial status, because trust fund balances are so low that there is no margin of safety if we were to use the intermediate assumptions and then the actual situation turned out worse. Under worst-case assumptions, even with interfund borrowing and the cost reductions in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35), the point of bankruptcy probably would be reached sometime early in 1984. Under the intermediate II–B assumptions in the 1981 trustees report, combined trust fund assets decline more slowly than under the worst-case assumptions so that the point of bankruptcy will not occur until 1989.

This does not mean that more savings are required than the administration estimated when it proposed its social security financing reform package in May. Rather, the administration's financing package assumed the enactment of its budget proposals as the starting point for determining how much additional savings are required to assure the financial integrity of the trust funds over both the short and long term.

Question 2. When do you expect to complete your study on the reasons persons elect early retirement under social security?

Response. At this point, we are reviewing all available data on the reasons that people state as to why they retire when they do. After examining the results of this review, we will determine whether additional original research can be expected to produce new information on this subject.

Actually, we believe it is not really possible to make any definitive and precise studies on this question. There is no way to measure or determine with any accuracy what are the underlying reasons why people retire. Surveys cannot, in many cases, find the real reasons.

For one thing, individuals either do not know, or they will not tell the inquirer the reason. For example, it is much more socially acceptable to allege poor health or inability to find a job than to give reasons such as a desire to take life easy or just not liking to work at a job that is uninteresting or at a job that seems undesirable. People at the older ages frequently have physical ailments that actually do not

prevent work, but can be cited as reasons for not working. The presence of a reasonable amount of retirement income, plus assets such as a mortgage-free home can make "retirement" attractive, and the reason given therefore may well not jibe with the facts.

The statement is often made that up to 70 percent of people retire early (at ages 62-64—or, even, it is sometimes said, at age 62) under social security. This is a misleading, and even erroneous, statistic. In recent years, about 65 to 70 percent of claimants receive reduced benefits due to claiming them before age 65. However, many such persons do not actually retire before age 65. Some claim benefits a few months before age 65, which—due to the operation of the earnings test—they can receive even though working full time until age 65. Others "retired" from the paid labor market many years before age 62, and claim benefits as soon as they reach the age-62 eligibility requirement. Still others who have low earnings claim benefits at ages 62-64, continue their same level of work, and yet receive benefits due to the manner in which the earnings test operates.

Question 3. What specific proposals would the administration support to protect the estimated 300,000 needy persons who depend on the minimum benefit but will not be covered by the supplemental security income (SSI) program?

Response. We do not agree that there are 300,000 needy people who will be adversely affected by the elimination of the minimum benefits but who will be unable to qualify for SSI. We believe that the SSI program, as modified by the budget reconciliation legislation, adequately serves the needs of people affected by the elimination of the minimum. Therefore, we do not think further legislation is needed in this area.

A brief review of the effect of eliminating the minimum on current beneficiaries may help clarify the situation. Of the 3 million beneficiaries currently receiving the minimum benefit, about 1 million people will not be significantly affected by elimination of the minimum because they are entitled to a larger benefit as the spouse (or widow) of another insured person; in a few instances they will receive slightly more, and in a few instances slightly less. Another 200,000 people have earned benefits under the regular formula which will be about equal to the current minimum. About 500,000 minimum beneficiaries have substantial income from governmental pensions or are married to active workers who have sizable income from their employment.

Of the remaining beneficiaries who can expect some reduction in their social security income, about 1 million are now potentially eligible for or are receiving regular SSI payments. An additional 80,000 beneficiaries will be potentially eligible for the regular SSI benefit when the minimum is eliminated.

The provision in the budget reconciliation which eliminates the minimum benefit also provides a special SSI benefit for those aged 60–64 who, but for their age, meet SSI eligibility criteria. The amount of this special SSI benefit will generally be the difference between their minimum benefit and their benefit as calculated under the benefit formula. Approximately 80,000 people will be eligible for the special SSI payment.

Thus, there is the residual group of about 140,000 people who do not fit into any of the above categories, but who can be presumed not to be in real need because their resources exceed the SSI eligibility requirements.

Senator PERCY. We have now a panel consisting of Mary Pipher, who serves as community affairs specialist for the Illinois Department on Aging for the past 2 years. Her duties include liaison work with the Illinois communities organizing forums for discussion of problems facing the elderly today and explaining department programs.

And Carl Renshaw. For the past 1½ years Carl Renshaw has served as legislative education specialist for the Illinois Department on Aging. He is responsible for acting as the liaison between the department and senior citizens groups throughout the State, helping them be aware of benefits available to them through the law and advising them about the legislative process.

Their positions give them an unusual opportunity to exchange views with older Americans, and I look forward to their comments.

Miss Pipher.

STATEMENT OF MARY M. PIPHER, SPRINGFIELD, ILL., COMMUNITY AFFAIRS SPECIALIST, ILLINOIS DEPARTMENT ON AGING

Ms. PIPHER. My name is Mary Pipher, and I am a community affairs specialist with the Illinois Department on Aging.

In my work I have chaired 135 speak outs with local community groups in Illinois from Skokie to Shawnee. Governor Thompson and the department on aging cosponsored the Illinois White House Conference which was held in Champaign. Many, many conferences were held prior to that.

From these speak outs and the White House Conference it is clear that older persons believe income is one of their most important problems. Economic opportunity was one of the top priorities discussed at the mini-White House Conferences and the State White House Conference.

Among all persons, women were the least well off, with 83 percent living on an annual income below $6,000, with a median income of $4,088. Those living on social security alone do not have adequate income. Would we take from them something as important as social security?

Female-headed aged households suffer a poverty rate of 24 percent. Without their social security, 58 percent of all aged families will be living below the poverty line. Some aged have been fortunate enough to escape from below substandard living standards, but they hover just above that poverty line as members of the "near poor." Any sudden escalation of cost of living or change in income would make them near poor.

Social security represents 75.7 percent of the income for those aged persons in poverty. Two-thirds of the older Illinois poverty population are not living with relatives but are surviving alone, 70,000 elderly or near poor are living within 125 percent of the poverty line in the State of Illinois. In a country of plenty, which gives support to all other groups of people in trouble, I am sure the leaders of our country will not take this source of income away. We will not turn our back on our elderly.

Progress is not made without hardship and suffering, but being a country of proud people, the depressions, the wars, and the sacrifices were shared by all, and the country remained strong. With senior citizens and the support of all who care, the country again will be strong.

Approximately 3,200,000 elderly persons lived in poverty in 1979, 39 percent of older persons are living on social security benefits. However, while many again are in that bracket, we must look to our support to give the people.

Supplemental security income is operated through the Social Security Administration also. This is available to those over age 65 who have little income or savings. The Illinois caseload for SSI is smaller than in other States. Payments in Illinois totaled $18.9 million in November 1980. The average payment for each individual was $67.71. The retirement test weighs most heavily on those who can least afford to bear that burden. The retirement test was drafted with no input from seniors.

Old-age and survivors insurance is also administered by the Social Security Administration and is popularly known as social

security. Benefits from this alone at retirement are generally not enough upon which to live. However, these benefits do play a very significant role in security economics.

People demand responsiveness to their needs from the Government. Senior citizens will demand their rights and input into this important decision. The seniors' money was entrusted to the keeping of the Government, they had no choice.

I am sure that all of you here join with us in seeking a solution to this problem. We have overcome many hardships in the past and we will overcome this.

Senator Percy, staff, and all concerned citizens, thank you for giving to me the opportunity to join with you in this very important meeting, and to bring the concerns of the people of Illinois.

Thank you.

Senator PERCY. Thank you, Miss Pipher, for a very concise and very powerful statement.

Carl Renshaw.

STATEMENT OF CARL RENSHAW, SPRINGFIELD, ILL., LEGISLATIVE EDUCATION SPECIALIST, ILLINOIS DEPARTMENT ON AGING

Mr. RENSHAW. Thank you, Senator Percy. I wish to thank you for the opportunity to participate in this most important social security hearing today.

Being representatives of the department on aging, we perceive our role here today to be more that of advocates for the welfare of the elderly of our State, rather than that of attempting to offer solutions to the problems facing the social security system. We, like you, are greatly concerned about how the solutions, whatever they happen to be, will affect both those who are now retired as well as future retirees.

Now, this does not mean that we are unwilling to offer suggestions and comments in the resolution of this problem. We would welcome the opportunity to do so.

I think most of us will agree with the statement made by Chairman Claude Pepper of the House Select Committee on Aging in a hearing on February 5, 1981, that, "Social security is the most successful Government program in existence in the world."

Yes, it is indeed a great system. But it is in serious and grave trouble today according to persons who are in positions to know its condition. In a very recent issue of the Christian Science Monitor, Senator Percy has already made reference to the statement that David Stockman has made, and I will pass that by for the time being.

Then we must ask ourselves, just how has the system gotten into this kind of a problem considering that no farther back than 1977 Congress passed a law increasing the social security tax on workers and employers that would make the system sound beyond the end of this century?

For one thing, high inflation, persistent unemployment, and a rising number of retirees has caused imbalances in the fund to shrink.

Furthermore, politicians and we, the American people, have come to expect too much from the system. When the system was

established in 1937, it was expected to provide only a supplemental source of income for retirees, not to provide the total livelihood for the elderly, but rather to supplement their incomes from pensions and savings so they could live a little bit better.

But then Congress began adding other benefits, such as disability payments, survivor benefits, student payments, medicare, burial benefits, cost of living, and so on. So that between June 1940 and December 1978, a total of 29 new benefits were added into the system. It was the popular thing for politicians to be doing for the people. This was all fine up to the point where the system has now become overloaded. It has become overloaded just like our electrical system in our homes can become overloaded and you blow a fuse.

We are told that the payout in total benefits in the old-age fund is exceeding the income into the system. Consequently, in order to prevent the system from going bankrupt, as many economists claim it will, either taxes must be increased or benefits reduced.

It appears that the mood of Congress is not to raise taxes on current employers and employees and is, therefore, looking at ways to reduce benefits to social security recipients in order to save the system. It is uncertain at this time what these reductions will be. In the first instance, attention must be directed to measures solving the short-range problem, as has already been mentioned several times this morning. This is the imminent problem confronting the system.

Second, measures of a long-range nature assuring stability and solvency to the system in the last decade of this century and into the 21st century must be addressed by Congress.

It is difficult if not impossible to predict what these measures will be. Some that are being considered at the present time have already been mentioned, but just let me refer to a half a dozen or so that I have indicated on my report.

No. 1, reduce the annual cost-of-living adjustment to benefits. Some say 85 percent of the CPI would help to bail the system out.

No. 2, require beneficiaries in higher income brackets to pay an income tax on their benefits. Those, for example, who would have an income of $25,000 or more.

No. 3, reduce benefits to workers retiring at age 62. I might say parenthetically that this is probably the most controversial of all these proposals that have been suggested.

No. 4, increase gradually the retirement age from 65 to 68. Over a 10-year period, this would have no impact on the immediate funding problems. Polls indicate that as many as 40 percent of the retired workers between age 62 and 65 would continue working if economic incentives were better. Such economic incentives might be the phaseout of the earnings limitation and an increase in the delayed retirement credit. In other words, make it a little bit more attractive to work beyond age 65. I think you would find a lot of people continuing to work beyond age 65.

I, for one, am in that class. I am working beyond age 65 and enjoying it. I think I am helping the social security system because they take out a certain amount of money every month from my paycheck.

No. 5, to permit interfund borrowing, and short range—many other proposals have been suggested which time will not permit me to elaborate on.

Now, it might be of some interest at this point to take a quick look at the number of social security beneficiaries and the amounts received in Illinois, particularly as regards the minimum benefit.

The social security system, I understand, does not track the minimum benefit, but they estimate that 92,000 people in the State of Illinois receive the minimum benefit. It is estimated that about 3 million across the Nation receive this benefit.

In June 1980, there were a total of 1,620,000 beneficiaries in all categories who received over $517 million for the month of June 1980. The average benefit for a retired worker as of June 1980, was $359.

Finally, there does not seem to be an easy and simple answer to the financial problems facing the social security system. To those who would propose major surgery—yes, even minor surgery—we would say don't be penny-wise and pound-foolish. And for those who would say keep the program as it is, and don't cut back or reduce any benefits, we would admonish. If you kill the goose, you lose the golden eggs.

In closing, I would like to refer to a letter which crossed my desk a few days ago from a retiree of the U.S. Air Force expressing his concern about the future of the social security system. The footnote to his letter, which I believe expresses the true sentiment of uncounted thousands of retirees, went as follows:

> I, for one, would be happy to pay more taxes to keep the system solvent, as are probably millions more; to lose this system would be a great disaster to all Americans.

Neither extreme seems to be the right answer. Some ground for compromise must be found between the two extreme and opposing points of view. In the final analysis, Congress and the administration will be forced to make some changes, both short and long range, to preserve the integrity and soundness of the system. It is politically inconceivable that Congress will allow the system to go under.

Hopefully this can be done in a manner that will cause the least harm to the smallest number of people and accomplish it without breaking faith and trust with the people.

This is a big challenge. It is one that must be met courageously and head on. Thank you.

Senator PERCY. Thank you very much.

Mr. Renshaw, in your testimony you estimate that about 92,000 persons in Illinois receive the social security minimum benefit: 92,000 people have been very, very concerned about some of the statements they have heard.

Out of that number, how many depend on the minimum benefit as a primary source of income?

Mr. RENSHAW. I have no figures on that, Senator Percy, but I have the feeling, from the information that I pick up in making contact with senior groups around the State that there is a sizable number that depend upon social security as their major source of income.

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Senator PERCY. I wonder if you could check on those figures as well as this next question.

Do you know how many persons would be protected by the supplemental security income, SSI, if the minimum benefit is eliminated? How many would not, and why?

Mr. RENSHAW. OK.

Senator PERCY. You will get that for the record, then.

Mr. RENSHAW. Yes.

[Subsequent to the hearing, Mr. Renshaw responded to Senator Percy's questions in the following letter:]

STATE OF ILLINOIS, DEPARTMENT ON AGING,
Springfield, Ill., September 4, 1981.

Hon. CHARLES H. PERCY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR PERCY: This is in response to your request for information on the questions you sent me as a followup to your Senate hearing in Evanston, August 13, on the social security crisis.

The Social Security Administration here in Springfield has been most helpful in trying to secure this information for you.

The crux of their findings is as follows:

(1) Of the 92,000 minimum social security beneficiaries in Illinois, how many depend on the minimum benefit as a primary source of income?

The 92,000 minimum social security beneficiaries is an estimated number developed from a statistical sampling only. SSA advises that it should not be relied upon as anything other than a gross indicator.

Social Security says there is no way for it to know if there are other sources of income for beneficiaries. Consequently it could not provide us with an estimate of how many rely solely on this minimum benefit.

Comments: According to Consumer Reports of September 1981, about 70 percent of recipients of the minimum social security benefits are elderly women. Furthermore, it is reported in "Older Women in Illinois," July 1977, that of older women living alone, almost 52 percent were in poverty, according to the 1970 census, and that the likelihood of being in poverty is even greater for older women who are black or Spanish-speaking or who live in small towns.

(2) How many minimum beneficiaries will be protected by supplemental security income if the minimum benefit is eliminated? How many will not be covered and why?

According to SSA understanding of the new law, there will be protections built in for current beneficiaries. Nationally, 1.8 million people already on the rolls will receive lower benefits. Of these 1.8 million people, about 1.1 million now receive or could receive SSI. It is estimated that 0.4 million of the 0.7 million remaining receive Federal or State government pensions. The law is set up to allow those age 60 to 64 to qualify for SSI if they will lose monthly income. This would allow them to qualify for aged benefits, even though they are not yet 65, if they meet the income and resource limits.

It is not known how many new applicants will receive lower benefits. Those who do, will not have the protection of SSI unless they are age 65, blind or disabled, and meet the income and resource limits.

There were 122,848 people on SSI as of May 1981. This is broken out further: Aged, 34,304; blind, 1,829; disabled, 86,715. Of the 92,000 estimated minimum beneficiaries, it would appear most will fall into one of these categories of SSI.

Those who would not be covered would be those who have another pension which would be too high to permit SSI payments. If income is low, then assets must be considered resources. Countable assets may not exceed $1,500 for an individual, $2,250 for a couple. These must be discussed on an individual case basis for new applicants.

Another group who may not receive SSI are those in nursing homes where medicaid pays for their stay. Since their standard payment amount under SSI is $25, it appears they would not be eligible for SSI to make up the difference.

Comments: According to "Social Security, Today and Tomorrow," by Robert M. Ball, on a national basis, in January 1977, over 70 percent of the elderly recipients of SSI and 33 percent of the blind and disabled recipients received social security benefits.

(3) How many elderly persons in Illinois are considered poor? How many of these persons depend primarily on social security for their income?

Social Security Administration indicates it does not have statistics on how many "poor" there are in Illinois.

Comments: This question does not lend itself to easy answers. One primary difficulty centers on how "poor" is defined. It, like hot and cold, comes in degrees.

Generally the established poverty level for individuals and families is perhaps the best determiner of whether a person is considered poor.

Again, the Consumer Reports of September 1981 state that nationally 15 percent of persons over age 65 live below the poverty level. Applying this to Illinois translates to approximately 165,000 who have incomes below poverty.

We were unable, unfortunately, to learn how many of these persons depend primarily on social security for their incomes. For whatever it may be worth, however, we do receive numerous letters from the elderly who are having a difficult time making ends meet. The recurring theme in a majority of these letters is "social security is my only income."

I regret that the foregoing information may be less than adequate for your purposes, but I hope that it may prove somewhat helpful.

Yours truly,

CARL E. RENSHAW.

Senator PERCY. Miss Pipher, you estimate that social security represents 75 percent of income for the elderly poor. How many people are we talking about and what percentage of the elderly population in Illinois are considered poor? If these benefits were reduced, would these persons be eligible for supplemental security income and other Federal assistance programs?

Now, I am not talking about the "near poor" but I'm talking about the really poor, below the poverty line.

Ms. PIPHER. I couldn't give you that figure, either, right now.

Senator PERCY. You can provide that for the record?[1]

Ms. PIPHER. I can provide it for the record.

Senator PERCY. Thank you.

Mr. Renshaw, you mentioned in your testimony two options for solving the short-term problems—adjusting the annual cost-of-living adjustment downward, and taxing some portion of social security benefits.

Do you support either of these options as an equitable way to shore up the system in the short run?

Mr. RENSHAW. It would seem to me that if inflation continues to drop, as the administration expects it to, that perhaps the CPI will take care of the short run and possibly even affect the longrun solution of the problem. This, of course, is problematical because we don't know what the future of inflation change is going to be.

Senator PERCY. Finally, Miss Pipher, you mention the White House Conference on the Aging. I really enjoyed that; we had a tremendous Conference, I think one of the finest in the country.

What specific recommendations, if any, did the Illinois Conference make about social security? If you do not have the recommendations with you, you can supply that for the record.

Ms. PIPHER. I do not have it, but there were recommendations.

Senator PERCY. We appreciate your attendance here. Thank you very much.

Ms. PIPHER. It was our privilege.

[Subsequent to the hearing, Ms. Pipher submitted the following information:]

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[1]See letter from Mr. Renshaw, page 30.

The economic security issues from the Illinois White House Conference on Aging were:

A. Issue: Older citizens have given years of work and years of social security contributions. They deserve society's support in return. However, benefit and eligibility reductions are currently being proposed, because the system is experiencing financial troubles.

B. Policy recommendation: Resolve that social security benefits should be protected, using general tax revenues to finance the system, if necessary.

A. Issue: The social security system is losing the confidence of both young and old, because many of the changes made over the years have gone beyond their original objectives and have often allowed unintended benefits to be paid to many who are not in true need—for example, through "double-dipping."

B. Policy recommendation: Resolve that the social security system should be carefully examined and improved. It should be returned to its basic purpose and thereby reinstill the public confidence in the system and its solvency.

A. Issue: Social programs are not receiving enough priority. National strength is built by programs for people. Proposed large military expenditures, for example, increase inflation and do not strengthen the country.

B. Policy recommendation: Resolve that social security receive greater priority in congressional expenditures.

A. Issue: Poor people are in danger of losing their safety net with current proposed reduction in social security. A small part of our population—especially minorities and women who have worked at low salaries—are bearing the brunt of present economies.

Senator PERCY. Now we have a very exciting panel, and I wonder if the members of that panel would take their places, Messrs. Day, Lapish, and Chapman.

Leonard Day, for the past 10 years, has been a manager of labor relations for the Illinois State Chamber of Commerce. Mr. Day is also a member of the U.S. Chamber's Employee Benefit Committee, and the Council of State Chambers Benefit Committee, both of which are concerned with national retirement policies, including social security.

Prior to joining the chamber, Mr. Day was manager of labor relations for a great Illinois corporation, the Borg-Warner Corp., for 18 years.

Jere Lapish is president of Falcon Marine Co., which specializes in construction at the water's edge and under water. The company has been in business for 131 years and currently has 28 employees. Mr. Lapish is a member of the executive committee of the Small Business Council of the Illinois State Chamber of Commerce and is here to speak on behalf of all small business people in Illinois and the country.

John Chapman is corporate personnel management consultant in Nabisco, Inc., which employs close to 4,700 people in six Illinois locations. He is responsible for public affairs activities for Nabisco.

Mr. Chapman is former chairman of the Workmen's Compensation Committee and a member of the Labor Relations Committee of the Illinois State Chamber of Commerce.

Mr. Day.

STATEMENT OF LEONARD DAY, CHICAGO, ILL., MANAGER OF LABOR RELATIONS, ILLINOIS STATE CHAMBER OF COMMERCE

Mr. DAY. Thank you, Senator.

Since we have been introduced, I will not go through that again. We do much appreciate this opportunity to present our concerns about the current status of the social security system and what steps should be taken to restore economic stability to that system.

We are appearing on behalf of the Illinois State Chamber of Commerce and its 6,000 member companies.

I won't elaborate again the difficulties that the system is in at the present time. That has been covered very thoroughly. Incidentally, Senator, the five charts were very, very informative and we appreciate that. It makes it very graphic. Unfortunately, the red—and I see a lot of red dresses out here—it is attractive in that form, but not when you see it on a chart.

Illinois employers have recently faced another problem of overspending, and that was in the unemployment insurance trust fund, so we are particularly sensitive to the problem of spending more than is coming in. Through a combination of increased moneys into the unemployment insurance trust fund, by higher tax rates and decreased payouts, and through selected reductions in benefit amounts, a solution to that financial difficulty has become a reality.

Illinois employers endorsed that tax increase because they saw a genuine effort on the part of all the parties—legislature, labor, employers, and the State administration—to bring the unemployment insurance program back toward fiscal soundness. The underlying hope was that this "belt tightening"—a wonderful phrase—would improve the Illinois economic climate. And it has. We believe that similar tough decisions now face the Congress and the social security system.

Social security is largely a pay-as-you-go retirement system; that is to say, today's workers and employers are taxed to pay benefits to today's retirees, just as we have done for 40-plus years and are likely to do for the foreeseable future. This makes social security taxes extremely sensitive to population and income fluctuations.

One of your charts graphically portrayed how just 30 years ago there were 16 workers putting in money for every retiree, and at the present time 3-plus, and before too long there will only be 2 workers putting money in for every retiree.

The problem has been compounded by the fact that social security is generous—and again, I won't elaborate again on all of the benefits that have come in. Some people in my own family, my extended family, are enjoying these, including a nephew and a niece who are both in college and are receiving the death benefit because of the untimely death of my brother-in-law. But nonetheless, the concern is, can these benefits continue to be supported?

Again, one of your charts pointed out that the social security tax has gone up over 2,000 percent since its inception. That is a staggering figure.

I came into the major work force in the early 1950's when the maximum social security tax was $3,600. At the present time it is $29,700. We used to joke that "wouldn't it be nice if before the end of a year you could have your social security paid off." It would still be nice if by the end of the year we could have our social security paid off, and we will elaborate on that in just a bit.

It is frightening to realize that the taxable wages have been increasing almost geometrically the past few years, and that Congress has not yet determined what amount should be taxed in 1982. One of my responsibilities, Senator, is to put out information to

Illinois employers. They are already setting up their 1982 budgets, and one question I get regularly is, "How much will we have to budget for social security?" Well, we know that the tax rate itself will go up a specific amount and it will be 6.7 percent of the income for next year.

I made several calls just within the last month to a number of different social security sources, none of which could state—because Congress hasn't determined—how much income will be taxed in 1982. Again, one of our other witnesses will elaborate on that.

I will jump to the recommendations that the Illinois State Chamber would suggest for averting this impending financial disaster.

The first is to require that all Federal, State, and local government employees participate in social security. Ninety percent of the work force is now covered by social security, but another 5 million, mostly State, Federal, and local government employees, are not. About 70 percent of those uncovered employees, however, do eventually qualify for social security benefits as a result of working in covered employment at some time in their career.

As a rule, such employees qualify for benefits which are about two-thirds of the amount they would have earned if their full career had been spent in covered employment. Yet, on the average, they only pay in less than one-third of their career-long earnings. I hope you understood that. It didn't come out right. But they are paying in less than they are receiving. Again, it is a part of the program that is difficult to continue supporting.

We also urge a modification of the indexing of the benefits. The annual increase is based on the Consumer Price Index, and yet actual wages do not go up by the same amount. I won't elaborate on those figures. You have probably heard enough to have your ears ringing. But we do believe the level of adjustment should be capped and the amount has already been suggested, perhaps 85 percent of the increase in the Consumer Price Index.

With the inflation experience of the last couple of years, and prices rising faster than wages, the demand will be for greater equity between the taxpayers and beneficiaries. There are a number of accounting procedures we would urge be incorporated, the interfund borrowing, and then without elaborating on all of the administration's proposals, we do support them. Mr. Simmons covered those quite adequately.

I would make one quote from Secretary Schweiker, Secretary of Health and Human Services:

> If the administration's proposals are enacted, we will not only put social security back on sound financial ground indefinitely, but also we will be able to significantly lessen the taxes of those currently supporting the system.
>
> We will be able to reduce the social security tax rate increase now scheduled for 1985, and to actually decrease social security tax rates by 1990 below what they are today.

We would make one caution, and that is against the use of general revenue funds as a source for financing social security. There are numerous arguments to be made against that, the infusion of general revenues into the system—and I will skip them for now. Those of you in the back can't see it, but the red light has already come on, which indicates I have used up my time. I appreciate your patience and will turn it over to our next witness.

Senator PERCY. Thank you very much, Mr. Day. We appreciate that.

[The prepared statement of Mr. Day follows:]

PREPARED STATEMENT OF LEONARD DAY

I am Leonard Day, manager of labor relations for the Illinois State Chamber of Commerce. I am accompanied by Jere C. Lapish, president of the Falcon Marine Co. of Waukegan, Ill., and John Chapman, corporate personnel management consultant, of Nabisco, Inc., headquartered at Nabisco's Bridgeview, Ill., facility. We appear on behalf of the Illinois State Chamber of Commerce and its more than 6,000-member companies.

We much appreciate this opportunity to present our concerns about the current status of the social security system and what steps should be taken to restore economic stability to that system.

SUMMARY

Social security is an example of a program that is living beyond its means. Overexpansion combined with recent adverse economic conditions threaten the financial survival of the social security system. Through the seventies, high levels of inflation and unemployment in combination with lagging productivity and lagging real wage growth have made visible the fact that the social security program has been overextended and needs to be trimmed back.

Illinois is particularly sensitive to this problem of spending more than is coming in, having recently agonized over a similar situation with regard to the State's unemployment insurance trust fund. Through a combination of increased moneys into the trust fund, by higher tax rates, and decreased payouts, through selected reductions in benefit amounts, a solution to the trust fund financial difficulties became a reality.

Illinois employers endorsed the tax increase because they saw a genuine effort on the part of all the parties (legislature, labor, employers, and the State administration) to bring the unemployment insurance program back toward fiscal soundness. The underlying hope was that this "belt tightening" would improve Illinois' economic climate.

We believe similar tough decisions face the Congress and the social security system.

THE PROBLEM

Social security is largely a pay-as-you-go retirement system, that is to say, today's workers and employers are taxed to pay benefits to today's retirees just as we have done for 40-plus years and are likely to do for the foreseeable future. This makes social security taxes extremely sensitive to population and income fluctuations.

In 1940, we had 16 workers for every retiree. Today there are three taxpayers for every retiree and when the post World War II baby crop reaches retirement age that ratio will be down to 2 to 1.

This problem is compounded by the fact that social security is generous to the aged, the disabled, and their dependents. Today a fully insured worker—i.e., someone who has worked as little as 10 years—is eligible to receive the following benefits on a fully consumer price-indexed and tax-free basis:

Lifetime pension.
Spouse benefit equal to one-half of the primary benefit.
Children's benefits equal to one-half of the primary benefit.
Special tuition allowance for children attending college full time.
Similar benefit for those who become permanently disabled.
Hospitalization insurance.
At slight additional cost, insurance for medical fees.

Social security became law in 1935. The tax to pay for the program is currently 2,011 percent higher than it was back then. A quick review shows the taxable wages have increased as follows:

51	$3,600
61	4,800
71	7,800
81	29,700

It's frightening to realize that the taxable wages have been increasing almost geometrically the past few years, and Congress hasn't been determined yet what amount should be taxed in 1982! The tax rate itself has jumped from 6.05 percent in

1978, to 6.7 percent for 1982, and is already scheduled by law to climb to 10.75 percent in 1990.

Despite these sharp tax increases, the program is in deep financial trouble. As OMB Director David Stockman recently said, "Legislating higher taxes has not solved social security's insolvency. Unless excessive costs are curbed, social security would eventually consume virtually the entire domestic budget after excluding national defense and interest on the national debt. Unless effective action is taken by Congress this year, the old-age and survivors (OASI) trust fund will be out of money late in 1982. Should that happen, the Social Security Administration will be unable to issue monthly checks to aged retirees, their survivors and dependents."

CHAMBER RECOMMENDATIONS

This impending financial disaster can be averted by Congress taking the following action:

(1) Require all Federal, State, and local government employees to participate in social security.

Ninety percent of the American work force now is covered by social security. About 5 million workers, mostly Federal, State, and local government employees, are not. Nonetheless, about 70 percent of the "uncovered" employees finally qualify for social security benefits, as a result of working in covered employment at some time in their career.

As a rule, such employees qualify for benefits which are about two-thirds of the amount they would have earned if their full career had been in covered employment. Yet, on the average, they pay less than one-third of the amount career-long covered employees pay in social security taxes.

This problem of windfall benefits occurs because the social security program attempts to give greater protection as percentage of pay, to those with low career earnings. Since most noncovered public sector workers will have artifically low covered earnings (through "moonlighting" and/or part-time work in covered employment), the system recognizes them as low career earners, resulting in a large benefit payout based on minimal contributions. This situation is unfair to all covered workers and to their employers who must bear the cost of the windfall benefits.

Another side of this problem concerns the people who work under both systems and who one day find they have inadequate retirement protection. Since neither their social security nor their alternative pension will be based on their lifetime earnings, these people may not qualify for benefits under either system—leaving them with no pension at all.

(2) Modify the current method of indexation of benefits.

The rising inflation rate brought with it a growing interest in the Consumer Price Index (CPI). Many Federal programs, including social security, provide benefits that are indexed to the cost of living. Increases in the cost of living are measured by the CPI. The CPI measures changes in the prices of wage-earner purchases of goods and services over time, as compared to the costs of the same basket of goods and services in some base period.

Among the items measured in the basket are housing and home loans. And this is where the controversy enters. Critics of the CPI argue that it exaggerates the inflation rate for the elderly (as well as others) because it includes housing costs. Not everyone, and particularly very few elderly, purchase houses. Sixty percent of the elderly own their homes. For this reason, some critics of the CPI want the CPI revised and/or a special CPI for the elderly developed.

In June 1980, social security recipients received a 14.3-percent cost-of-living increase. SSA estimated that the fiscal year 1981 cost of that increase will be $16.8 billion. SSA has further estimated that the June 1981 cost-of-living adjustment will be 12.3 percent.

Covered wage earners, whose taxes support the social security system, do not receive wage adjustments to allow them to fully keep up with increases in the cost of living. It is highly questionable as to whether beneficiaries, who no longer contribute to the system, should receive fully indexed benefits based on the CPI at the taxpayers' expense.

We believe the level of adjustment should be capped (e.g., 85 percent of increase in CPI). With the inflation experience of the last couple of years (prices rising faster than wages), the demand will be for greater equity between taxpayers and beneficiaries.

(3) Put into effect accounting and administrative changes to redistribute existing revenues in a manner designed to postpone the exhausting of social security trust funds.

The short-range problems of the social security system will require the immediate attention of the 97th Congress. This was also a concern of the 96th Congress which

provided for a temporary tax rate reallocation between the OASI and DI trust funds.

According to the pessimistic assumptions of the 1980 trustees report (which more closely match today's economy), the OASI trust fund as well as the combined OASI and DI trust funds would be unable to pay benefits from October 1982 through 1984.

A possible solution could be: (1) A reallocation of some of the revenues from the HI trust fund (which would be building up during this time) to the OAS and DI trust funds. In addition, (2) Congress could enact interfund borrowing among the three trust funds during this period. The 1980 trustees report states that the three funds for OASI, DI, and HI together are projected to be adequate to meet their combined needs during 1980–84 except under the pessimistic assumptions. However, that report does not take into account the expected savings from the disability insurance amendments (over $2 billion by 1985).

(4) Enact the administration's proposals to:

(A) Change computation points for average indexed monthly earnings from 62 to 65.

(B) Increase "bend points" in primary benefit formula by 50 percent (instead of 100 percent) of wage increases for 1982–87.

(C) Eliminate benefits for children of retired workers aged 62 to 64.

(D) Make family maximum provisions of the disability program applicable to survivor and retirement cases.

(E) Require medical-only determination of disability (i.e., exclude vocational factors).

(F) Increase disability waiting period from 5 to 6 months.

(G) Require disability prognosis of 24-month duration (instead of 12 months).

(H) Require 30 quarters of coverage out of the last 40 quarters for disability benefits (instead of 20 out of last 40).

(5) Amend and enact the administration's proposals to:

(A) Reduce early retirement benefits, phased in over the next decade.

(B) Move the date for automatic benefit increases from June to September 1982, and use a 12-month average.

(C) Eliminate the windfall portion of benefits for persons with pensions from noncovered employment.

In explaining the administration's social security reform proposals, Health and Human Services Secretary Richard Schweiker stated, "If these proposals are enacted, we will not only put social security back on sound financial ground indefinitely, but also we will be able to significantly lessen the taxes of those currently supporting the system.

"We will be able to reduce the social security tax rate increase now scheduled for 1985, and to actually decrease social security tax rates by 1990 below what they are today."

CAUTIONS

There are some solutions being pushed which, in our opinion, would do nothing to solve the problem. To the contrary, they could well create more problems.

The first is a proposal for the use of general revenues as a source of financing for social security. Similar proposals date throughout the history of the program.

As social security costs have mounted over recent years, so has interest in using general revenues to help finance the system. The 1979 Advisory Council endorsed general revenue financing of HI, and general revenue payments to the trust funds during high unemployment, and loans to the trust funds when reserves fall.

This is interesting, because just 2 years later the HI fund is so healthy (without having received any general revenue funds) that many persons are suggesting that moneys be loaned from it to the OASDI fund. To take the lid off of general revenues for the social security program would truly be taking the lid off the cookie jar.

Numerous arguments can be made against the infusion of general revenues into the system: (1) Most workers perceive their benefits as a matter of earned right acquired by their payroll tax contributions, and a large Government contribution might damage or weaken this acceptance of the system; (2) the close tie between new benefit liberalizations of the program and new taxes provides the system with a fiscal brake without which there might be unrealistic benefit expansions; (3) the use of general revenues to support the system would lead to a means-testing of benefits; and (4) the use of general funds to meet a deficit is a "paper transaction" that does nothing to provide the needed additional funds but simply moves the deficit from the trust funds to the general funds.

Another suggested solution is to have interfund borrowing. This gets into the old syndrome of "robbing Peter to pay Paul." One reason the HI fund looks so healthy at present is the penurious manner in which benefits are doled out from it. Medicare

and medicaid programs do not pay for hospital services on the basis of the hospital's regular charges; they only pay on the basis of "allowable costs," which is determined by special cost reports. Such "allowable costs" do not cover the total costs of medical care. One hospital, Illinois Masonic Medical Center, estimates that their private patient charge will have to be $720 per day compared to $400 and $430 for medicaid and medicare. It is false economy to think the HI fund is enjoying fiscal stability when that stability is based, in large part, on higher private insurance costs. Of course, many employers pay all, or most, of any group insurance premium.

CONCLUSION

Social security reform is essential. Never-ending tax increases have not done the job! Turning to general revenues for help would compound the problems. Responsible reform must be made in order to save and strengthen this essential program and to hasten the general economic recovery of our country.

Senator PERCY. Mr. Lapish.

STATEMENT OF JERE C. LAPISH, PRESIDENT, FALCON MARINE CO., WAUKEGAN, ILL.

Mr. LAPISH. My name is Jere Lapish. As you introduced me—and I am not an expert on the social security system. I am a member of the Illinois State Chamber of Commerce and serve on the executive committee of its small business council. I am here representing many small business people throughout the State of Illinois and the country who are being pinched by the cost of Government.

Because of the age of our company, and approaching the senior citizen age group myself, we recognize the concerns of the senior citizens. And there are many here today. However, companies like ours also have concerns and need relief from the rising cost of Government. As with most small employers, I walk a tight line between profit and loss. That line gets tighter each year because of constantly rising employee costs.

Our work, working under water, is considered very hazardous, despite the fact that we have had virtually no lost-time accidents in the last 20 years. However, we have to accept the high cost of workers' compensation as part of the essential business costs.

I am bothered, though, by the ever-increasing costs of group insurance and social security. Our overhead cost in relation to direct labor has risen from 76 percent in 1971 to 135 percent in 1981. These overhead costs include social security, OSHA, and new Federal regulations by the Coast Guard. The greatest increase in the percentage has been the social security cost, along with the cost of unemployment.

I might add that in 1971 we hired 38 people. We have lost 10 people because we can't compete today for business. There isn't the business available for us to compete on, I should say.

My employees are not too happy with the reduced paycheck, either. Each year there is the usual grousing about how much is taken out of their paychecks for social security. Where the employees used to have their social security deductions finished by some time in July in 1971, they will have to pay to October or even all year this year.

It is difficult to imagine that the tax percentage is going up again in 1982, and that social security people don't even know how much in earnings will be affected. We bid work as much as 1½ to 2 years ahead. Unknown costs, such as annual increases in the social security payments for each employee, really bite into our profits.

I cannot run my business by spending more than I earn. I don't see how the social security system can continue paying out more than it gets in return. Obviously, something has to give.

I appreciate the opportunity of adding small business support for the changes proposed by the administration, as clarified by the Illinois State Chamber. We urge Congress to enact social security reforms this year as a big step in helping the overall economic climate get turned in the right direction.

I thank you for the opportunity to testify.

Senator PERCY. Thank you very much indeed, Mr. Lapish.

Mr. Chapman.

STATEMENT OF JOHN S. CHAPMAN, BRIDGEVIEW, ILL., PERSONNEL MANAGEMENT CONSULTANT, NABISCO, INC.

Mr. CHAPMAN. Thank you, Senator Percy, staff, ladies, and gentlemen.

I would just like to say I am John Chapman from Nabisco. I am speaking for some of the larger industries in the State of Illinois through the chamber, and Nabisco who fully supports the critical role of social security.

We have been concerned enough that we have been very active. Our chairman has worked as part of the task force of the Business Roundtable, because it is recognized that if we are going to have a viable program, there is an extreme need for legislation to reform the program at this time.

As you know, this is an intergenerational program, and it is designed to meet a legitimate need of providing a floor of protection to replace employment income following retirement, disability, and death. If it is going to continue to serve the needs of current and future generations, we have got to get busy and make the reforms now.

In evaluating the present status of this program, four major problems are readily identifiable: One, there is a lack of understanding on the part of the public as to the purpose, nature, and financing of this program.

Two, there is a lack of confidence in the program, and I think this was evidenced by a recent survey showing that up to 75 percent of workers between 25 and 44 do not believe or had serious doubts that funds will be available for their benefits when they need them. Now, add to this the confidence gap of numerous retirees who live in fear that the benefits they rely on may be reduced or cut off.

These are problems that are going to require some effective efforts to improve the public's understanding so that they recognize, accept, and support reform actions now.

I think at this time we have a debt of gratitude to Senator Percy and his staff for attacking the problem of lack of understanding, and for talking a little bit about why in this great country we should have and will have confidence in the social security program.

We also must address what you heard about this morning, the critical short-term cash-flow problem. I'm not going to get into that. It's technical. It came about, as was mentioned, because the economy didn't do quite as good as we thought it might. We believe

the answer to this type of problem can be made without a major change in the program, and that would be through reallocation of payroll taxes among these trust funds and/or interfund borrowing.

We also feel that in the future, though, benefit increases must be limited to wage increases during periods of time when there is a faster advance in price than there is in wages.

Now, this isn't advocating the reduction of benefits. I think this is just making future benefit increases more realistic, and by doing so we can insure the viability of the program on a long-term basis.

Now, the fourth problem is one of long term. Long-term problems get us involved with demographics. We have heard about the fact that it takes 3.2 workers now to pay each benefit recipient. With the baby boom and the subsequent reduction in the work force in the future years, and increased longevity, it will eventually go down to 2 to 1. If the program is going to continue to be financed by workers and their employers, without reform, the increase needed in payroll taxes would be an unbearable burden on our children and our grandchildren, and upon industry and business.

We do not believe that general revenues should be used to bail out or in any way finance this program. For reasons we will explain later, we feel it equally unwise and unfair to lay the burden that will exist upon future generations if we fail to reform the program now.

The program should be continued to be financed by equally shared payroll taxes. For these reasons, one, if we got into general revenues, we would weaken the relationship between benefits and their financing. Two, we would undermine the basic premise that benefits are paid as a matter of earned right, rather than on a need basis, which is generally true of general revenue financed programs.

Third, general revenue funds, as was pointed out earlier, are not available for this purpose without increasing our already substantial deficits, would be inflationary, and again add to our problems in that respect.

A solution is to be found in legislating changes in the plan that may not be politically popular but are necessary to maintain the long-term viability of the social security system and eliminate the need for excessive future increases in payroll taxes.

We also must recognize, as was pointed out before, that there are a number of benefits coming out of the system now that were never intended, under the original concept, to be a part of the system, and we think perhaps they can be more effectively addressed through other means.

Therefore, we urge consideration of the following recommendations: One, phase out postsecondary student benefits; two, phase out the minimum benefit—of course, we have talked about this somewhat. The safeguards, we certainly would support that concept. Modify the disability program to relate it more closely with work history, as was pointed out. Change the benefit computation point from 62 to 65. This change would be a modest incentive for people to continue in the work force. There is a reason for that which I will address later.

Increase the bend points by 50 percent rather than 100 percent during the period 1982 to 1987. This is a technical adjustment to

kind of offset the fact that under the 1972 amendments the benefits actually were overindexed and that added to our problem.

Eliminate benefits for children of retired workers 62 to 64. This would eliminate an incentive to retire early.

Extend the disability program family maximum provisions to the survivor and retirement programs. Sometimes workers can now get more take-home pay than when they were working.

Eliminate the windfall portion of benefits for persons with pensions from noncovered employment. That was addressed.

Modify the date for automatic benefit increases to coincide with the fiscal year, and use a 12-month CPI average.

The demographics of the country will likely result in future labor shortages. When this occurs, we will need to encourage productive older members of our society to continue to work. Therefore, the policies of business and Government, including those in social security, should begin to be designed toward this end.

The age at which full old-age benefits are available should be increased from age 65 to age 68 beginning some time between 1990 and the year 2000. Enactment of these changes would allow those who will be affected adequate time to adjust personal and financial planning.

Early retirement at age 62 could be permitted on an actuarial reduced basis.

The primary purpose of old-age benefits is to replace lost employment income. Thus we believe the income test liberalization scheduled as part of the 1977 amendment should be repealed and the age-72 limit on the earnings test be retained. It just seems inconsistent when we have the financial problems with the system we do, and the chance of it going under, that we would continue to pay old-age benefits to people who continue to receive significant employment earnings.

Mandatory universal social security coverage should also be enacted, to the extent permitted by law, and include local, State, and Federal Government employees. This won't be easy. It will have to be fair and equitable to those involved. Also, it must be done in a manner that protects benefits accrued under existing programs. But it would help offset the decline in the ratio of workers to recipients.

Again, I thank you for the opportunity, Senator and staff, for this sharing of our views with you. We have faith that we will make it.

Senator PERCY. Thank you very much.

Mr. Day, let me ask you first on the subject of the retirement age. Does the Illinois State Chamber of Commerce support raising the retirement age as an alternative to other benefit reductions, like lowering the amount of the cost-of-living adjustment or reducing replacement rates?

Mr. DAY. I have to plead ignorance on that. I am not exactly sure what out policy would be on that. At first we—I hope I am guaranteed safe conduct from the room—but we had opposed raising the retirement age from 65 to 70 in the work force. We have learned, though, that that has been satisfactorily brought into the work force with none of the problems we foresaw at that time.

But I'm sorry, I cannot elaborate on that question at the moment.

Senator PERCY. Well, if the chamber does take a position before we close this record—and I would ask respectfully that they give consideration to it—we would like very much to have your views on that.

Mr. DAY. We will do so, thank you.

[Subsequent to the hearing, Mr. Day responded as follows:]

On reviewing the State Chamber's position, I'm reminded that we do support raising the retirement age from 65 to 68 to recognize increased life expectancies. We also support actuarial reductions in benefits for early retirement prior to age 68. We also recommend delaying this proposal for several years, perhaps until 1990. This would allow individuals and their employers time to make compensating changes in their plans and in their benefit packages without major cost implications or disruption of long-planned retirements.

Senator PERCY. And also, Mr. Day, either you or either one of your colleagues, do you support the administration's proposal to eliminate the so-called windfall benefit for Government employees?

Mr. DAY. One hundred percent, yes, sir, we do. We——

Senator PERCY. Could you expand on that just a little bit?

Mr. DAY. We believe that the 5 million Federal, State, and local employees who are not now covered by social security should, indeed, come under the social security system completely so that—over 70 percent of those individuals now, through working just enough—and they don't do this deliberately—but they work in the private sector, the covered sector, just enough to qualify for extensive social security benefits far beyond the amount they contribute through their earnings in the private sector.

So that is a windfall, indeed, and it is a windfall that can no longer be supported by the system.

Senator PERCY. In other words, they figure out what the system is; their input is minimal; their out take is maximized. That is one of the contributing factors to the problem of insolvency that we are facing?

Mr. DAY. That's right.

Senator PERCY. Now, Mr. Chapman, and Mr. Lapish, given your support of some reductions in social security benefits at some future date, what would be the impact on private pension plans that are integrated with social security?

Mr. LAPISH. I can't answer that because we don't have any.

Mr. CHAPMAN. Of course, our plans, some of them are involved with the integration and some of them are minimum plans. Really, I think I am not qualified to try to get into that. I know it has been a matter of concern and there is some impact on it, and it is likely there would be some demand along the line for the contribution of the company via the pension plan to be increased. This would be just a general premise. But to go any further than that, I think my knowledge is limited at the moment.

Senator PERCY. Again, if you have any comments for the record before the record closes, we would be grateful for those.

Mr. DAY. Senator, there is one other concern there, and that is the integration of social security with worker's compensation for a disabled person, one who became disabled in the course of work and was qualified for worker's compensation. There has been extensive debate, almost ending in fistfights at times, over whether

worker's compensation should pay the initial amount, with social security picking up the rest to the designated percentage of the person's former working income, or whether social security should pay their full amount first and then worker's compensation pick up the difference. We have not resolved that. So we will also have input.

Senator PERCY. I would like to ask this question, as a 30-year member of the U.S. Chamber, the Illinois State Chamber of Commerce, because I have found at age 29, when I became chief executive officer of Bell & Howell, I was automatically the chairman of our Retired Employees Association. I began working with thousands of retired employees, those who were about to retire, and their spouses, trying to help prepare them for retirement. I found them ill-prepared, and we developed some very progressive, imaginative, and bold programs to deal with that.

We had a profit-sharing retirement plan that has been through the years a very fine thing. I have always looked upon social security as what it was intended for, a supplement for private savings and a supplement for private pension funds. It was never intended to be the sole source of support.

I am shocked to find, as a member of the Senate Special Committee on Aging—and I know Senator Heinz and other members of that committee are shocked—to find how many people are aghast when they discover that social security does not provide an adequate income for them in retirement; that they never really understood the system. That is one of our great problems.

Now, industry faces a problem. I discovered this in the years of research I put into writing the only hard-cover book that I have written, "Growing Old in the Country of the Young." Fifty percent of all workers are not covered by a private pension plan today, 40 years after social security came into being.

What do you think Congress can do, what can I do, to encourage private firms to offer adequate pension plans—and I speak to you as a former fellow businessman, and I will put the same question to our representative of organized labor, Harry Conlon.

Mr. LAPISH. We have retirement plans for our employees through the union. We also have a profit-sharing plan for our supervisory employees that are not union.

But the fact is there is only three of us in that particular category. We are regulated by what we do for the union. It is a little hard, especially when the supervisory employees probably don't make the same wage at the end of their lifetime as the union employee does.

Senator PERCY. Thank you, Mr. Lapish.

Any other comments?

Mr. DAY. Well, the Illinois State Chamber, Senator, does encourage a pension program of some type, whether it be through joint savings, profit sharing. There are a number of different programs.

The great majority of the 6,000-member companies of the State chamber do provide such benefits for their employees, to look forward to their retirement years. Unfortunately, that is 6,000 employer units out of over 200,000 in the State. So there are many, many companies that don't come under the scope of the enlightenment of the Illinois State Chamber and associations like us.

So we are with you all the way on that.

Senator PERCY. The last question relates to a question I put to the Deputy Commissioner of Social Security. As we all know, much of the strain on the social security system is due to the increasing number of early retirees. We never really anticipated this would happen. Longevity increases, the strain is heavier, we are living longer. Thank heavens we are working to keep that going. Of course, it does mean the system has to pay out to people a lot longer than was ever envisioned.

What is the attitude of the chamber and your respective firms about employees toward early retirement? What, if anything, are you doing to encourage workers to stay on the job after age 62? I have found in all my research so many people look forward to those "wonderful years" when they can sleep late in the morning, don't have a place to go. Suddenly they realize that all the fun they had on that vacation was fun because they left work and they had something to come back to. But suddenly they're out and they don't have the companionship.

Now, maybe it is not in our best interest to encourage people to retire as early as they can. Here we may have again a differing philosophy and viewpoint between sometimes management and labor. But let's lay it right on the table and if we have differences, let's say them.

Mr. LAPISH. Senator, can I speak to that?

Senator PERCY. Yes, please.

Mr. LAPISH. Being in the marine industry, being located——

Senator PERCY. Being underwater.

Mr. LAPISH. Well, being close to Great Lakes, Ill., we get quite a few applications for jobs from retired Navy people. Also, many other firms in our industry hire people from the Corps of Engineers.

Now, these people probably have worked 20 years, probably joined at 20 years old, worked for 20 years. They are 40 and they retire. They come to work for us, and when they're 62, they have got a good pension built up in both organizations, the Federal, the Navy, or the Coast Guard, or Corps of Engineers, and also through social security. So it is hard to entice them to stay, because they have got a double income.

Many of these people are just getting to the point where they are becoming beneficial to our operation and they are hard to replace when they leave. But it is hard to entice them to stay when they have plenty of money to retire on.

Senator PERCY. Let me editorially comment on the armed services—and I speak as a veteran of World War II—but it does seem to me, we can no longer afford the luxury of retirement after 20 years of service.

The Soviet Union is putting 30 percent of their money into personnel, and we put in 54, 53 percent. A tremendous quantity, billions of dollars for retirement benefits. A young person can come in at age 18 or 19 and retire on a pension at age 38 or 39. He can then get another job and receive that income and the pension, and later also receive social security. It may have been a good idea at one point but it is simply a luxury we can't afford.

We cannot pull the rug out from under them any more than we can change the rules in the middle of the game on social security.

But, looking ahead, with the new recruits coming in, we had better shape up on this one and we had better face up to that. People are living a lot longer and their usefulness is not over at age 38, 39, or 40.

I think we just have to recognize that we have to change a lot of the rules of the game now, but always giving advance notice and never changing the rules in the middle of the game.

Are there any other comments on early retirement?

Mr. DAY. One other point, Senator, on that last comment that you made.

The Illinois State Chamber is working in conjunction with the American Association of Retired Persons in a series of conferences for employer personnel types, so that they in turn can establish preretirement counseling courses along the AARP lines in their own facilities. We note that you have a representative of AARP to speak soon. It's a fine organization and we appreciate working with them.

Senator PERCY. I thank you gentlemen very much indeed. I so much appreciate your kindness in being here.

Our next witness I take particular pleasure in introducing. He is Harry Conlon.

He has been president of Chicago Local No. 245 of the Graphic Arts International Union since 1977. Previously he was executive vice president for 11 years. Mr. Conlon serves as an executive committee member of the GAIU supplemental retirement and disability fund and is chairman of the interlocal pension fund.

He is not only that, but he is one of the finest friends I have ever had. We have not always agreed on every single issue——

Mr. CONLON. Not on this one, either, I'll tell you that.

Senator PERCY. But he is forthright, and he is one of the most able spokesmen for organized labor in the United States of America. He is a fighter, but he is a reasoned man, one of the most intelligent, articulate members of labor, and we, together with other members of my labor advisory board, have reasoned together. Sometimes we have disagreed, but we generally come up with a common approach that resolved the problem we had on the table.

So, Harry Conlon, I welcome you as a fine friend and an outstanding member of organized labor.

STATEMENT OF HARRY E. CONLON, PRESIDENT, CHICAGO, ILL., LOCAL 245, GRAPHIC ARTS INTERNATIONAL UNION

Mr. CONLON. Thank you, Senator. I'm sure that was me you were talking about, right? [Laughter.]

As a union official, I am also involved in the administration of a number of pension funds. I submitted a five-page statement to you, Senator, which I think speaks for itself. But I can tell you as a representative of organized labor, I am very disturbed over many of the proposed slashes in social security proposed by people who aren't paying into the system.

I am particularly disturbed when legislators, some of whom have longevity in the Senate or House, and aren't dependent upon, and probably never will be dependent upon, social security, are making

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judgments with respect to these slashes. I don't think that is quite fair. [Applause.]

What outrages me the most, I suppose, is we are faced with the fact that some knowledgeable people have stated that we have a short-term cash-flow problem—and the administration and others have jumped on the bandwagon—and have not been looking for the answer in terms of generating available cash to pay for the program but, rather, are looking at slashing the benefits.

The representative of the Social Security Administration admitted earlier that their latest study showed that 70 percent of the early retirees retired either because if ill health or because of a lack of a job. I think that is accurate today as well. We can't lose sight of the fact that many people are forced to retire because they work in industries that are hazardous to their health and when many get to 62 years of age they are tired, they're sick, and they're incapable of working any longer, and they have to retire. Now the administration is proposing a slash in those early retirement benefits.

Look at technology. I don't think there is any industry in the United States today that has not been affected by radical new technology. Robots, machines are doing people's work. What does that mean? We have too many people in the work force.

Consequently, many unions, corporations, and companies have gone out and established pension programs to encourage older people to move out of the work force to enhance the job security of younger people who are paying taxes. We are doing precisely that, and this type of cut in benefits will be an actuarial disaster to corporation and union pension funds in this country. There's no question about it in my mind.

I would like to read two paragraphs from my statement—which I think was a brilliant statement, Senator—I am being facetious. I'm a little biased on the subject, OK? I will just read to you these two paragraphs.

In deciding that this Nation cannot afford even to maintain the present level of benefits—let along improve on them—the administration has chosen to project a series of economic prospects directly in conflict with the rosy outlook which it described so enthusiastically when it was pressing for passage of tax cuts for the wealthy.

Finally, the last paragraphs—and I think is the bottom line on the whole thing, cutting through everything else we have heard. Of course, that's my opinion.

It remains a question of basic national policy: Are we or are we not still committed to the principle of respect and care for the elderly, and are we or are we not committed to carry out the assurances given by the Nation to the workers who have been building their retirement plans in reliance on the promises of the social security system.

Supplements to it, which you mentioned a few minutes ago.

I am not an economist, but I do know that when consideration is given to the defense needs of this Nation, we do not hear wails of dispair over any prospective shortage in any military expense fund. We define the need, however controversial that process may be, and then we seek the funds for it. Why can't we do the same for the obligation which we have to the elderly of our Nation?

To do otherwise, in my estimation, would be a national tragedy.

Now, that is my statement as a union official, Senator. The timing light isn't on, so let me just make one final statement as a citizen, a southside Chicago Irishman.

I was forced to go to work at the age of 15, because we needed the money, like you were. I have been paying into this system for 37 years now. I want to retire when I'm 62. I don't want to work until I'm 65 or 68, because I'll probably be tired and sick like most other Americans are by the time they have worked hard all their life. And if I want to retire at 62, I am going to retire.

Senator, you tell those guys in Washington, when that time comes, I want my money. [Applause.]

[The prepared statement of Mr. Conlon follows:]

PREPARED STATEMENT OF HARRY E. CONLON

My testimony here today reflects my views from several different vantage points: I am president of a local union composed of approximately 7,000 men and women working in the graphic arts industry, ranging in age from young workers just entering the labor force through older workers in their fifties and sixties who have been making their social security tax payments for 30 or 40 years, or more. I am also chairman of the board of trustees of the 30-year-old union-sponsored interlocal pension plan covering approximately 20,000 members in some 50 locals in our industry throughout the country, funded by the members' own payments. I also sit on the board of trustees of the Graphic Arts International Union Supplemental Retirement and Disability Fund, jointly administered by union and employer trustees and covering over 50,000 employees in the industry.

I speak therefore with some knowledge of the thoughts and aspirations of working people who are participants in the social security system of our Nation and with some knowledge of the role and operation of private pension plans.

I must report, first and foremost, that our members view with dismay—almost with disbelief—the proposals of the present administration for cutbacks in social security benefits. And I share that dismay.

We have been subjected to a rising crescendo of alarms and predictions of impending disaster for the old-age and survivors' trust fund. We are deluged with statistics foretelling a future in which a smaller number of employed workers will be carrying the load of benefit payments for a rising number of retired employees. Our older citizens are actually being made to feel that they are a group of freeloaders who must be barred from living a life of luxury at the expense of a hard-working younger generation. The Congress is being stampeded into a search for ways and means of cutting back on social security benefits, to save the system from the catastrophe which would supposedly befall us if this Nation fulfilled the promises made to those who have been paying into the system.

I resent and reject this kind of mean and slanderous attack upon the rights of retired workers and of all of those who are presently working and planning toward a reasonably secure retirement.

The Chicago Sun-Times of July 19, 1981, carried a thoughtful analysis by William Hines of its Washington Bureau, very appropriately titled "Social Security: A Problem Only in the United States." The article makes a number of telling observations, noting that not only is the American social security system not "overly generous to its pensioners nor very burdensome to the society that supports it," but that, in fact, "comparing American social security with systems in other advanced nations, one is left wondering what the brouhaha over ruinous costs and imminent bankruptcy is all about." Mr. Hines reports that: "Compared with most other developed countries, America was a Johnny-come-lately in providing a national pension program and still lags in offering a complete social security package of aid to the old, the sick, and the aging unemployed."

Canada has present and future ratios of people over 65 to persons in the labor force which are substantially the same as ours, and West Germany and Sweden have substantially larger ratios. All have social security programs—and particularly health care programs—far more generous than ours.

What outrages me is that, faced with what some knowledgeable people have stated to be primarily a short-range cash-flow problem, this administration (and others who have joined the stampede) have not been looking for the answer through search for means of increasing the available cash, but have seized on the problem as an occasion for cutting benefits to the retired, the disabled, and the dependents and survivors of social security participants. Alternative solutions have been offered by

experts in the field, but have been so far ignored by Congress—temporary transfers into the old-age and survivor insurance fund from other funds, increases in social security taxes (possibly to be offset by allowing deduction of social security taxes for income tax purposes), supplementation from general revenues, if need be, and others.

I am not an economist and do not pretend to know the answer. I do know that even when the social security system was established, it was accepted that contributions from general revenue would at some time be needed. The system was not merely a vehicle for private benefit. It was an expression of public policy, an acceptance of the principle that in a modern industrial society proper provision for a respectable and secure old age was a hallmark of civilization.

It remains a question of basic national policy: Are we or are we not still committed to the principle of respect and care for the elderly and are we or are we not committed to carry out the assurances given by the Nation to the workers who have been building their retirement plans in reliance on the promises of the social security system? I am not an economist but I do know that when consideration is given to the defense needs of the Nation, we do not hear wails of despair over any prospective shortage in any military expense fund; we define the need (however controversial that process may be) and then seek the funds to meet it. Why can't we do the same for the obligation which we have to the elderly of our Nation?

These considerations apply to the entire body of proposals both of the administration and of others, for cutbacks in social security benefits, the proposed cuts in disability benefits, the proposed postponements of cost-of-living adjustments, the proposals for elimination of minimum benefits, the proposals for curtailment of dependents' benefits, the proposals for raising the age of eligibility for normal retirement benefits, the proposals for downward revision of calculation techniques, and others. But I must make special comment on the proposal for slashing the benefit for early retirement at age 62.

The reduction is a whopping cut from the present payment of 80 percent of full benefits on retirement at 62 to 55 percent. This carries with it, of course, a cut in the spouse's benefit from 40 percent down to 27.5 percent. Moreover, the cut would become even deeper by virtue of an accompanying administration proposal to change benefit computation to average in an additional year of zero earnings for each year retired below age 65. It all adds up to a devastating penalty on early retirement.

Apart from the obvious resulting in social security costs, it has been urged in support of this proposal that it would encourage continuance at productive work for a longer period. The fact is, as has been repeatedly pointed out in response to this contention, that social security studies establish that over 70 percent of these early retirees retire either because of ill health or because of lack of a job. For these sick and unemployed this harsh proposal will not deter retirement but will simply mean a slashing cut in benefits which they have been promised, on which they have been counting, and for which they have been paying during their working career.

But there is also another consequence to which I must address your attention. Many pension plans have been geared to the availability of early retirement benefits at age 62.

I happen to be aware, for example, that in the major meatpacking collective bargaining agreements, special provision is made to take care of long-service older workers, over the age of 50, but under 62, who lose their jobs in a plant closing—leaving them without employment at a time when, as the old saying goes, "They are too old to be hired, but too young to die." The pension plans under those contracts provide a special pension, at a higher than normal level, which is maintained at that level, however, only until age 62. The assumption, of course, is that at age 62, the social security fills the gap left by the pension reduction under the company plan. The administration proposal would now proceed to destroy the foundation on which that special pension program was built.

In my own direct experience, the GAIU supplemental retirement plan, of which I am a trustee, is an integrated part of a total pension package available to our members. The package includes the retirement benefits available from the member's own payments into the union-sponsored plans, one of which is the interlocal fund, of which I am chairman. From the supplemental retirement plan, jointly administered, and funded by employer contributions, the member receives on retirement, after age 60, an additional basic pension amount for life, but he may also receive an additional supplemental early retirement benefit, which is paid only during the period between the date of retirement after age 60 and the date when the retiree reaches age 65.

For many participants in our program, the availability of a meaningful social security benefit at age 62 is an important component of his retirement plans. That

component is often essential to his ability to weather the period of reduced income immediately following retirement and until transition can be affected to a lifestyle appropriate to available income.

For the pension plan itself, actuarial calculations must include cognizance of the impact of retirements which are based on the retiree's social security expectations—including expectations of benefit payments at age 62. Obviously, drastic changes in those benefit payments may have significant effect on the actuarial assumptions on which this program has been built. I am sure other pension plans would be faced with similar considerations. Certainly the proposed cut in the early retirement social security benefit would do much to frustrate the objective of plans such as ours—to make early retirement more feasible for those whose health or other personal considerations require it as well as for those who are simply enabled thereby to enhance the enjoyment of their golden years.

I must end with a return to the more basic question. The specific benefit reductions proposed by the administration are objectionable. But more importantly we reject the entire underlying notion that the way to "save" the social security system is to destroy it—or even to reduce its already too limited value. In deciding that this Nation cannot afford even to maintain the present levels of benefits—let alone improve on them—the administration has chosen to project a series of economic prospects directly in conflict with the rosy outlook which it described so enthusiastically when it was pressing for passage of tax cuts for the wealthy. I am convinced that neither of these sets of predictions are reliable—but I am also convinced that the proper road is one which seeks to deal with such problems as there may be in the social security financial foundation not by lopping off parts of the building but by strengthening the foundation.

Senator PERCY. Mr. Conlon, your description about the way in which social security is an integral part of your pension benefit package is really helpful to all of us. Given your opposition to any reduction in benefits for early retirement, because of the structure of your package, if some changes are necessary in the future, would raising the retirement age for everyone be more equitable than a cut in benefits for just one group such as the early retirees?

Mr. CONLON. Well, that's a broad question, Senator. I think that it is difficult to answer, because as I indicated in my statement, you can't always categorize people. There are people who work in asbestos factories, in dangerous chemical companies, whose life expectancy isn't as long as the average citizen.

Let's face it. Those people are in a different category when it comes time to retire. You just can't paint everyone with the same brush.

I really feel that it is incumbent upon this country, and the administration should take the lead to recognize that if people want to retire, are too ill to work any longer, there isn't a job for them, that we have an obligation to take care of them.

You were in the Soviet Union recently. I was there 2 years ago. You saw how the elderly live over there. You probably saw old ladies out in the streets shoveling wet snow, like I did. That's the way they care for their elderly over there.

I think it is imperative that this country, as great as we are, do whatever we can, regardless of what it costs, to generate the revenues necessary to take care of our elderly people. We can find the funds to build obsolete aircraft carriers, we can build outmoded tanks that don't work, we can build helicopters that don't function when we try to rescue people from Iran. Those things cost a lot of money.

I think if we can do those things, and we can develop a missile capability to the point where we and the Soviets can kill each other a thousand times over—and you can only die once—we can find the money to take care of our elderly. [Applause.]

Senator PERCY. I would like to make a little statement and then also just ask another question.

We know that older people are becoming a larger and larger percentage of the population in the years ahead. The big baby boom that we had is now coming to fruition, and it is a boom in the number of old people.

Future projections have shown that we will need more older workers to keep the economy growing. We know that. Moreover, statistics show that older workers are more productive, have fewer accidents, lower job turnover, and less days of absenteeism than younger workers.

In your judgment, Mr. Conlon, what is a correct age for retirement today? Is it possible to come up with any kind of balanced judgment on that? We have just dramatically moved the mandatory retirement age up to 70, except for management and faculty members with tenure, unless there are other prevailing circumstances such as inability, mentally or physically, to carry on the work.

What is today the ideal retirement age? Is it possible to give such a figure?

Mr. CONLON. That's a difficult question if ever I heard one. It's a good one, though, Senator.

I think, in a democratic society, that ought to be a free choice of everyone. If they want to work until they're 95, they ought to be entitled to work to 95. Conversely, if they want to—if they have been led to believe through decades of their working lives that they can retire at 62, they ought to be able to retire at 62. Entitled to retire at 62, and also get what they are entitled to as well.

I am opposed, as a union official, even though it affects the job opportunities for younger people, I am opposed to forced retirement for anyone. I don't want the people I represent being told by their employer that they can't produce any more like a 25-year-old and therefore they have to leave. We fight those issues. I am opposed to compulsory retirement. But conversely, as I said, I think a person ought to get what he is entitled to—what he has been promised—when he does reach the age of retirement.

Senator PERCY. I had to face this question as a young chief executive officer years ago. I finally decided at that time—and that was 1950—that age 72 was a normal retirement age for the board of directors. For people in the company, we should not have age 65 as required, 30 years ago, we decided to phase in retirement. Age 65 was what we called the normal retirement. Obviously full pension benefits were available to them. But if they wanted to stay, they could stay that year, take a 3-week vacation, plus a month leave of absence. At 66, 2 months leave of absence. Age 67, 3 months leave of absence, and they would retire then at age 68.

I don't know what is right or not, but that is the program we had. Then we planned 10 years ahead of time that everyone was eligible to take 13 weeks of counseling on what it's like to retire. How do you finance it? What are your health problems? What are your relationships with your children? Where should you live? We showed movies, films, and had everyone talk.

I had couples tell me that after those sessions, "That's the first time my husband has ever talked to me about retirement. We

started talking, and now we talk about it all the time. We're getting ready, mentally, to retire." A lot of people just never faced up to it.

Now, let's just take a group of workers who want to continue working. They have decided they want to continue and they don't want to retire. They thought it through and they would rather keep working for awhile. Do you support eliminating of earnings limit under social security for people who do wish to work so they'll have an added incentive?

Mr. CONLON. Absolutely.

Senator PERCY. You do?

Mr. CONLON. Absolutely.

Senator PERCY. Well, I am very gratified for that.

I would like to also parenthetically note that there are good, concerned critics of reform now, who believe we just shouldn't change anything.

I have to remind them that the pay-as-you-go system depends upon the willingness of workers to pay the taxes that support the system. The message Congress overwhelmingly received in the last election was to cut Government spending and reduce the Federal deficit, because inflation hurts and robs the pockets of the lower income people, particularly the lower income elderly. Inflation is the harshest enemy that any of them have. We must find a way to bring inflation down.

Mr. Conlon, thank you again very much indeed for being with us.

Now if we could have our final panel, please, Robert Sell, formerly president of the Chicago chapter No. 3285 of the NRTA/AARP, of which I'm a proud member. Mr. Sell is currently legislative chairman of the chapter. Mr. Sell has the distinct honor of being an Illinois delegate to the White House Conference on Aging to be held in Washington late this year. He is also a delegate to the Northeast Service Area of the Office of Senior Citizens and the Handicapped.

And Jerry Prete, president of the Illinois State Council of Senior Citizens Organizations, past president of the Greater Chicago Council of Senior Citizens, and currently executive director of the Chicago Metropolitan Area Senior Citizens Center.

For the past 8 years he has served as a member of the executive board of the National Council of Senior Citizens, Illinois State Council, serving 789 clubs and councils throughout the State. So I am happy to have Mr. Prete representing the views of all these older Americans.

You may begin, Mr. Sell.

STATEMENT OF ROBERT J. SELL, LEGISLATIVE CHAIRMAN, CHICAGO, ILL., CHAPTER NO. 3285, NATIONAL RETIRED TEACHERS ASSOCIATION/AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. SELL. Thank you very much, Senator.

I am speaking for the National Retired Teachers Association and the American Association of Retired Persons. The two groups have a combined national membership of 13 million older persons, and a statewide membership in Illinois of over 620,000.

The official position of the associations which I am representing is set forth in the documents which I have submitted in my written testimony.[1]

Senator PERCY. Mr. Sell, your complete testimony, and Mr. Prete's, of course, will be incorporated in the record. I know that your statements are considerably longer than the others who have appeared before us. I have enjoyed the discussion that you gave and the arguments you have used very much, indeed, and benefited from it. But if you can summarize them, we would appreciate it and stay within the time limit.

Mr. SELL. In your inspiring keynote address at the Illinois White House Conference on Aging last May, Senator, I recall that you said the elderly had no greater enemy than a country which accepted inflation. You indicated that you were backing the President 100 percent in his fight against inflation, but that efforts to control inflation did not mean that we should abandon progress, and that no group or region should be asked to sacrifice unfairly.

These are reassuring words and we appreciate them. I am sure seniors are also reassured by the comments made by the President at the start of his televised address of July 27. The President correctly observed that seniors have been frightened by the constant, and often contradictory, information regarding social security.

For millions, social security is their financial lifeline. Social security statistics indicate that two-thirds of the elderly depend on social security for over half of their income, and nearly one-third of them depend on it for 90 percent or more of their total income. The inflation protection which social security provides is practically the only inflation protection available to most older persons.

Our associations recognize that social security is facing serious financial difficulties in both the short and long term. But to try to address these difficulties by precipitously cutting back benefits to current retirees or persons approaching retirement will be financially disastrous for older persons and, much worse, will begin to undermine younger workers' confidence in the system.

In dealing with social security's problems, Congress seems to have two options—it can either cut benefits or add revenue. Payroll tax incentives are out of the question, and resistance to use of Federal general revenues has been building.

But if the use of general revenues on a limited and temporary basis to meet the short-term deficit is ruled out, we fear Congress will end up making drastic cuts in benefits and concentrate the "hurt" that such cuts will entail on the most helpless and least vocal segment of society, the elderly, particularly the very old, and those who are widowed.

The vast majority of these people will have no way to offset such benefit losses. They cannot be expected to return to work. And they are already experiencing huge losses due to inflation's erosive effect on their fixed income sources. The continuation of full cost-of-living protection will be critical to them. In many cases, this is the only means available to them for avoiding poverty.

We ask you to consider the following facts:

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[1] See page 54.

In 1979, despite full social security cost-of-living increases, the elderly poverty rate rose dramatically, from 13.9 to 15.1 percent, while the poverty rate for the nonelderly remained unchanged at 11.1 percent.

So many of the elderly are concentrated just above the poverty threshold that, in 1979, a drop in their income of less than $15 to $20 a week would have caused the elderly poverty rate to jump from 15 to over 25 percent.

Rather than slashing benefits for a group in society that obviously can least afford it, the associations believe that a more reasonable and equitable response to social security's short-term problem would be to stabilize the system with a temporary infusion of general revenues, as needed, to maintain social security trust funds at adequate levels.

As limited and temporary amounts of general revenues are used over the next 5 years to maintain the system's solvency, Congress should move to make fundamental changes in social security so that it will be able to accommodate the system's long-term deficit. Such changes must encourage older workers to increase their work effort and make the system more equitable in its treatment of individual workers and more adequate and reliable for future retirees.

In order to promote work effort on the part of older persons, we are not suggesting—in fact, we are opposed to an increase in the social security full benefit age to 68. Rather than raise the age for full benefits, the system's benefit structure must be changed to encourage work effort through elimination of the earnings limitation and the provision of actuarially increased benefits for persons who delay filing for benefits.

Also, the early retirement penalty should be increased somewhat to reverse the early retirement trend. Elements in the system's benefit structure which encourage early retirement and discourage continued work effort must be changed. But the age 68 proposal is not the answer. The age 68 proposal is an obvious benefit cut for younger workers who are now being asked to bear higher payroll tax burdens. Raising the age for full benefits will only accelerate younger workers' diminishing confidence in and support for the system.

In order to make social security more equitable and adequate in the future, it must be gradually restructured so that, first, the payroll tax is used mainly to finance the cost of benefits paid to workers and, second, the amount of an individual worker's benefit will be strictly related to the worker's earnings and payroll tax contributions. Those elements in social security that are now financed by payroll taxes and are welfare or social adequacy in nature should be gradually shifted to separate benefit structures and financed from general revenues.

This type of restructuring will provide today's younger workers with the assurance that they will get a benefit from social security that will reflect what they earned and paid for and will represent a "good buy" in terms of their expected rate of return on investment.

Personally, I believe that in taking any position our sole objective must be to establish a long-term, stable retirement program under the social security system. We, as seniors, should support

whatever action is necessary to achieve this. I am convinced that we will. I am certain, as a group, that we will be very objective in our appraisal of whatever solution is ultimately presented.

I want to bring up one point which is related indirectly to this discussion. I believe that medicare coverage should be extended to those persons who do elect to take an early retirement. I don't believe there will be many if early retirement is made less attractive. It seems to me, though, that as long as early retirements are permitted, it is just simple justice to allow the early retirees to avail themselves of medicare coverage.

I have had early retirees tell me that because of their age it is impossible to obtain quality coverage at a cost anywhere near what they can afford, and yet they are not eligible for medicare.

In conclusion, Senator, I take this opportunity to applaud your appointment of Representative Josephine Oblinger as your delegate to the 1981 White House Conference on Aging. Her selection as representative of the year by the Illinois Department on Aging marks her as a true friend of seniors. I also express my appreciation for the courtesy extended me by Cyndee Oliver and your staff.

Thank you very much, Senator.

[The prepared statement of Mr. Sell follows:]

PREPARED STATEMENT OF ROBERT J. SELL

My name is Robert Sell and I am representing the National Retired Teachers Association and the American Association of Retired Persons which have a combined national membership of 13 million older persons and a statewide membership in Illinois of over 620,000.

I am past president and currently legislative chairman of the Chicago/North Chapter No. 3285 of the American Association of Retired Persons, a national government organization which has membership of close to 12 million. I have other senior activities and am an elected delegate from Illinois to the 1981 White House Conference on Aging.

The official position of the American Association of Retired Persons regarding social security is set forth in the documents which I have submitted:

(1) 1981 Federal and State Legislative Policy of the National Retired Teachers Association and the American Association of Retired Persons as established by NRTA/AARP National Legislative Council.[1]

(2) Legislative report dated April 16, 1981.[2]

(3) Information memorandum dated June 5, 1981.[3]

(4) Xerox copy of an article by Cyril F. Brickfield, executive director of AARP which appears in the August/September 1981 issue of Modern Maturity, an official publication of AARP.[4]

In your inspiring keynote address at the Illinois White House Conference last May, Senator, I recall that you said that the elderly had no greater enemy than a country which accepted inflation. You indicated that you were backing the President 100 percent in his fight against inflation; that efforts to control inflation did not mean that we should abandon progress, and that no group or region should be asked to sacrifice unfairly.

These are reassuring words and we appreciate them. I am sure seniors were also reassured by the comments made by the President at the start of his televised address of July 27. The President correctly observed that seniors had been frightened by the constant, and often contradictory, information regarding social security with which they have been bombarded.

For millions, social security is their financial lifeline. Social security statistics indicate that two-thirds of the elderly depend on social security for over half of their income and nearly one-third of them depend on it for 90 percent or more of their total income. In particular, the inflation protection which social security provides is practically the only inflation protection available to most older persons.

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[1] See appendix 1, item 1, page 77
[2] See appendix 1, item 2, page 82
[3] See appendix 1, item 3, page 83
[4] See appendix 1, item 4, page 87

Our associations recognize that social security is facing serious financial difficulties in both the short and long term. But to try to address those difficulties by precipitously cutting back benefits of current retirees or persons approaching retirement will be financially disastrous for older persons and, much worse, will begin to undermine younger workers' confidence in the system.

In dealing with social security's problems, Congress seems to have two options—it can either cut benefits or add revenue. Payroll tax increases are out of the question, and resistance to use of Federal general revenues has been building. But if the use of general revenues on a limited and temporary basis to meet the short-term deficit is ruled out, we fear Congress will end up making drastic cuts in benefits and concentrate the "hurt" that such cuts will entail on the most helpless and least vocal segment of society—the elderly—particularly the very old and those who are widowed. The vast majority of these people will have no way to offset such benefit losses. They cannot be expected to return to work. And they are already experiencing huge losses due to inflation's erosive effect on their fixed income sources. Poverty rates among them are rising, and evidence of sharp declines in their real income situation has already begun to appear. In particular, the continuation of full cost-of-living protection will be critical to them since, in many cases, this is the only means available to them for avoiding poverty.

We ask you to consider the following facts:

In 1979, despite full social security cost-of-living increases, the elderly poverty rate rose dramatically—from 13.9 to 15.1 percent, while the poverty rate for the nonelderly remained unchanged at 11.1 percent.

So many of the elderly are concentrated just above the poverty threshold that, in 1979, a drop in their income of less than $15 to $20 a week would have caused the elderly poverty rate to jump from 15 to over 25 percent.

Rather than slashing benefits for a group in society that can obviously least afford it, the associations believe that a more reasonable and equitable response to social security's short-term problem would be to stabilize the system with a temporary infusion of general revenues, as needed, to maintain social security trust funds at adequate levels.

As limited and temporary amounts of general revenues are used over the next 5 years to maintain the system's solvency, Congress should move to make fundamental changes in social security so that it will be able to accommodate the system's long-term deficit. Such changes must encourage older workers to increase their work effort and make the system more equitable in its treatment of individual workers and more adequate and reliable for future retirees.

In order to promote work effort, particularly on the part of older persons, we are not suggesting, and in fact are opposed to, an increase in the social security full benefit age to 68. Rather than raise the age for full benefits, the system's benefit structure must be changed to encourage work effort on the part of the elderly through elimination of the earnings limitation and the provision of actuarially increased benefits for persons who delay filing for benefits. Also, the early retirement penalty should be increased somewhat to reverse the early retirement trend. Elements in the present system's benefit structure that operate to encourage early retirement and discourage continued work effort must be changed. But the age 68 proposal is not the answer. The age 68 proposal is an obvious benefit cut for younger workers who are now being asked to bear higher payroll tax burdens. Raising the age for full benefits will only accelerate younger workers' diminishing confidence in and support for the system.

In order to make social security more equitable and adequate in the future, they must be gradually restructured so that, first, the payroll tax is used mainly to finance the cost of benefits paid to workers and, second, the amount of an individual worker's benefit will be strictly related to that worker's earnings record and payroll tax contributions. In this manner, the pension and individual equity elements of social security—both in the retirement and disability programs—would be emphasized and made more clear to workers and beneficiaries.

This type of restructuring will provide today's young workers with the assurance that they will get a benefit from social security that will reflect what they earned and paid for and will represent a "good buy" in terms of their expected rate of return on investment. In addition, they will have the assurance that, in their later years, they will have good prospects for achieving income adequacy and avoiding poverty. This is an assurance that the system, as presently structured, does not and cannot provide.

Despite all the political rhetoric that has surrounded social security and despite gloomy reports from its official "trustees," the fact remains that the real trustees of social security are the 535 Members of Congress. Congress created it. Congress has made many changes over the years to improve it.

Personally, I believe that in taking any position, our primary objective must be to establish a stable retirement program under the social security system. We, as seniors, must support whatever action is necessary to achieve this. I am convinced we will. For example, I have a copy of a letter from a senior couple addressed to David Stockman which recommended that we enact a proposal to decrease disbursements. Although it would penalize us as recipients of OASI, our concerns are inflation and preservation of OASI.

They proposed a tape matching of OASI cost-of-living increases/decreases against IRS reported other income and/or the next year's estimated income. Percentage increases could then be scaled in proportion, for example:

Reduced by 10 percent on $15,000 to $25,000; 20 percent on $25,000 to $40,000; to 100 percent on over $n,000.

I don't know how many seniors would be willing to go this far, but I am sure that as a group they will be very objective in their appraisal of whatever solution to the problem is ultimately presented.

I want to bring up one point which is related indirectly to this discussion. I believe that medicare coverage should be extended to those persons who elect to take an early retirement. It seems to me that if early retirements are permitted—then allowing retirees medicare coverage is a matter of simple justice. I have had people tell me that it is impossible to obtain quality insurance coverage at a cost anywhere near what they can afford because of their age, but they are not eligible for medicare.

In conclusion, Senator, I take this opportunity to applaud your appointment of Representative Josephine Oblinger as your delegate to the White House Conference on Aging. She has been helpful to the Illinois Joint Legislative Committee of NRTA/AARP, and her selection as representative-of-the-year by the Illinois Department on Aging marks her as a true friend of seniors. She adds great strength to our delegation, and I know that she will make a solid contribution to the success of the conference.

Senator PERCY. Thank you very much, indeed, Mr. Sell. I wish to compliment the National Retired Teachers Association and the American Association of Retired Persons for the truly outstanding job that they have done. We, on the committee, have benefited tremendously by their assistance and help. They are wonderful to work with, and of all the lobbying groups that we work with, I don't know of any that has done more for more deserving people than your particular group. I hope your membership continues to expand and grow.

Mr. SELL. Thank you very much.

Senator PERCY. Mr. Prete, it is good to see you again. We were with each other just recently when you led a delegation of senior citizens to Washington, and we are delighted to have your testimony today.

STATEMENT OF GERALD J. PRETE, CHICAGO, ILL., PRESIDENT, ILLINOIS STATE COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS

Mr. PRETE. Thank you, Senator.

We recognize the need of making changes in the social security system, and we said that in Washington, 10,000 of us on the Capitol steps. But we know and we believe it is also possible to insure that there is no cut for future participants or the present participants.

We are absolutely and totally opposed to the administration's proposed cuts in social security. Of course, I go into detail with some 28 or 30 pages of testimony here, which has not been done lightly, because we do know there is a way to do it.

The interesting thing about all of this is you and I both remember when it used to take an act of Congress to get a social security increase. Isn't that correct, Senator?

Senator PERCY. That is absolutely right.

Mr. PRETE. And as much as 3 to 4 years before we could get one. I remember one 4-year period, is that correct, too?

Senator PERCY. That is absolutely correct. At the time the system was changed, I cosponsored the bill to make the adjustment automatic. We also increased benefits 20 percent.

Mr. PRETE. Well, the point I want to make in that is that we attended hearings—we had our representative at meetings, constant dialog and thought that went into the approach to put the cost-of-living index in. Some of the other changes that were brought into the social security system were not done lightly. They were not done at a snap of the finger, or an immediate mandate, or an approach with a meat ax, or any other way.

Let me make this one point. We do believe changes can be made, and we can strengthen the social security system. But the approach that the present administration is taking is absolutely and totally disregarding the legislative process. The present average benefits for a retired worker at the beginning of this year was $342.29 a month, which is an annual $4,107 and some change.

Now, there are a lot of people who supplement that, but there are a lot of people where that is it for them, because of some disabling disease or some other expenditure in their life they find they have to live on that social security, and that is below the poverty level.

The ladies, the elderly women of our country are so discriminated against, reducing their benefits to 80 percent of what—their husband was working and they were alive and getting the social security benefit, and reducing it to 80. And the present administration wants to reduce that to 50 percent, by 27.5? I think that is also horrendous and totally disregards the legislative process.

Every change that we make in the social security system should take time, thought, inquiry, research, all of the things that make a good package put together.

Let me address the one change that has come about, removing the minimum benefit. The minimum security benefit affects approximately 3 million people. This results in lower social security benefits for about 2 million persons. One million of the 3 million getting the minimum are also entitled to spouse's benefit, higher than the benefit they get based on their own earnings and would not lose.

About 500,000 also get supplemental security income. They would end up with the same amount of income because the means-tested SSI benefit would increase as the social security benefit decreased.

This leaves 1.5 million people now receiving the minimum benefit who would have less income because of the change recommended by the administration. I go on with some other testimony.

But the important point to know—and this is further down in the testimony—it is important to know that the present law that was on the books gradually phased out the minimum benefit by freezing the initial value of the primary insurance amount at $122. In other words, if we didn't do anything, the freezing of that benefit, the minimum security benefit would have been eliminated. People who did not have earnings and who would not have received the $122 would now come automatically under that floor.

In the future, an age 65 retiree will receive no more than $122 unless his or her preretirement earnings justify a higher benefit.

Over the years, since all other benefits in the earnings requirements for eligibility are updated to current earnings, it will become increasingly unlikely that workers with benefits of as little as $122 will be eligible.

This is a good example of how a modification—now, if there were double-dippers, it would have meant just a minor change in the law, instead of coming and approaching this with a chop. A lot of people are going to be hurt unless we do something in the next legislative session, which you have already promised to do.

These are the things that I say is what our organization supports. When we went for different changes in the social security system early on in our legislative efforts, we joined the process. We went and gave testimony. We provided the data and the research that was necessary for those changes to come about. And so these are the kinds of things we are saying, that change is possible, without cuts in benefits, only if the legislative process goes about it at the proper pace, timing, and inclusion.

Let me say in conclusion that I thank you for the opportunity to present my viewpoints, particularly the opportunity to present the written testimony. But I am just terribly disturbed, Senator. Most of this meeting was spent on time in presenting the administration's proposals. I would have liked to have taken one of those charts. On one of those charts they show that somewhere down in 1984 about a $18-billion deficit will occur. That just happens to be what we spent for defense extra this year.

We propose that we separate the social security trust fund from the budget. There should be a separate fund and put it on the side. We propose that there be interfund borrowing. We know this is only a short-term crisis. We know further down the road we have the time and the dollars to make those modifications which can be incorporated, long range, so that when we promise a worker who enters the work force today that he will receive a certain amount of benefits, we can live up to those promises.

We believe there is a contract between the workers of the United States of America and its Government. That contract cannot be broken in the middle of the road. It is called an insurance program, social security insurance program. If that is what insurance is about, where you can change the contract in the middle of the road, we have got to do that by degrees and gradually.

I know there are a number of people out here, the younger workers, are looking at this Congress to use the best of their wisdom to make sure that one of the—this is the biggest anti-poverty programs this country has ever had, and it is run the most efficiently. It costs less than anything else we do. To take this apart and start destroying the system, I think the administration is terribly wrong and committing a grievous sin to raise the crisis of alarm and fears and anxieties in the older Americans of today and the future older Americans.

I don't think it's fair. It is the wrong kind of tactics. When we know we can, as we have done in the past, come to hearings and give testimony and that kind of information which will make good changes.

You're asking for bipartisan. Well, bipartisan means that we have to have a fair shake on those decisions. We have to have a fair input into those decisions.

Thank you very much, Senator Percy.

[The prepared statement of Mr. Prete follows:]

PREPARED STATEMENT OF GERALD J. PRETE

Mr. Chairman, my name is Jerry Prete and I am president of the Illinois State Council of Senior Citizens' Organizations, past president of the Greater Chicago Council of Senior Citizens and executive director of the Chicago Metropolitan Area Senior Citizens Senate. These organizations are affiliated with the National Council of Senior Citizens, Washington, D.C., and I have been elected to the National Council's executive board for the past 8 years.

I am testifying today on behalf of the 789 clubs and councils in the State of Illinois, and over 4,000 clubs in the national Council with a combined membership of 5 million members. These organizations include church groups, union retirees, and other civic organizations of senior citizens.

We have had legislative conferences, workshops, and attended the Illinois White House Conference on Aging and the will of these organizations, expressed over and over is not cuts in social security protection for present and future senior citizens of America.

We recognize the need for strengthening the financing of the old-age and survivors' insurance part of the social security system, but this can and should be done without reducing social security benefits for those now receiving them and without reducing promised protection for those now contributing to the program.

The present administration's proposed cuts in social security protection of nearly one-fourth, including about a one-third cut for the totally disabled and over a 40-percent cut for people forced to apply for retirement benefits at age 62. President Reagan's administration would like to enact all these recommendations into law, they are so horrendous that it is difficult to believe they expect to get them all. This does become believable, however, when you note the administration's recommendation of the minimum security benefit of $122 a month to over 3.1 million older Americans. To add to our disgrace, the great legislative assemblies of our elected representatives of our Senate and Congress joined in this meat ax approach and approved.

This and more reduced benefits are recommended based on the administration's crying crisis, the system's going broke, $82 billion in cuts over the next 5 years, and much more later. This is the greatest danger! Our representatives may become accustomed to the idea of accepting substantial cuts in social security protection, breaking the contract between our working citizenry and our senior citizens.

We do not believe that any reductions in protection are warranted. Social security protection is not excessive—far from it.

Benefits for retired workers at the beginning of this year averaged $342.29 (annual $4,107.48), for elderly widows $311.46 (annual $3,737.52), and for disabled workers $370.90 (annual $4,450.92). (See appendix A for more details.) Senior citizens living on this income only, just barely make it in today's high cost of living.

Our organizations believe there are good ways to finance the social security system. We advocate and will support various changes, but they do not include benefit cuts. We oppose all of the administration's proposals.

In support of this, I will go into detail on the following: (1) The social security compact; (2) the Reagan proposals; (3) the financial status of the social security system; and (4) our proposals for financing the social security system.

This testimony is long but there is no adequate way to treat this problem with the various proposed cuts, and to make recommendations.

THE SOCIAL SECURITY COMPACT

The social security system today pays monthly benefits to 36 million retired older people and totally disabled people, their dependents, and to the survivors of deceased workers, mostly widows, and motherless and fatherless children. About 115 million workers will contribute to the system this year, building protection for themselves and their families.

The system is our most successful antipoverty program, keeping some 14 to 15 million persons out of poverty. At the same time, it is much more than an antipoverty program. Social security is the base on which just about everyone in the United States builds protection against the loss of earned income because of retirement in old age, total disability, and death. Every private pension plan in the

United States is based on the assumption that the pensioner will also receive a social security benefit, and individuals saving on their own, count on social security as a base for their efforts. One of the most important characteristics of the social security system is that there is no means test, as there is in a relief or an assistance program, so that private pensions, and what one saves on one's own, can be added to the basic social security protection.

We have in this country now a four-tier approach to retirement income: A nearly universal, wage-related, contributory, compulsory social security system; private pension plans covering about half of those currently employed (mostly above-average earners); individual voluntary savings; and underlying the whole a residual means-tested program of supplemental social income. These four tiers are not competing, but are complementary. The social security system is by far the most important of the four tiers, and for private pension planners and individual savers to act effectively the social security program must be dependable; these other tiers are based on the predictability and dependability of the basic system.

The social security system provides good protection. Benefits are paid not only in the case of retirement but because of total disability or death. Over 4½ million children get a benefit every month, for example. The protection is well worth the cost. Protection for contributing workers is kept up to date with rising wage levels before they apply for benefits and with prices thereafter. The system is inflation proof and tax free.

This protection arises from a compact between the contributing worker, his employer, and the Government. Social security promises, stretching into the distant future, grow out of the earnings in covered employement that people have performed in the past and out of the social security payments that have been made. As in any group insurance and most pension plans, the amount of the protection is not related solely to the amount of previous earnings and specific contributions, but whether one gets a benefit at all and how much the benefit will be is related importantly to past earnings and contributions. Thus, benefits are paid as an earned right as well as a legal right. It is not surprising that the country is reacting with outrage to proposals that would violate the compact between the contributing worker and his Government.

THE REAGAN PROPOSALS FOR A 23-PERCENT CUT IN BENEFITS

The administration has proposed permanent cuts in social security protection that amount to an overall reduction of 23 percent, reductions of about one-third for the disabled, and over 40 percent for those forced to apply for benefits at 62. The reductions will affect 2.3 million people already receiving benefits and just about everyone now contributing. Although the cuts affect those who are forced to take their social security benefits early, and those who are totally disabled, particularly harshly, the level of promised benefits is sharply reduced for just about all present contributors. In the material that immediately follows, I will comment on the major proposed benefit cuts. I have grouped the description of the proposals into four categories—those affecting people already receiving benefits; those that will affect just about everyone now contributing; those that fall with special harshness on people who are forced to take their benefits before age 65; and those who are totally disabled.

Benefit reductions for 2.3 million persons now receiving benefits and a loss for all present recipients through postponement of the cost-of-living increase

Although some administration spokesmen have been saying that their proposals will not affect people now receiving social security benefits, this is not the case. The administration has proposed eliminating the minimum social security benefit, not only for newly eligible people, but for the 3 million persons now getting the minimum benefit. Such persons would have their benefits lowered to the amount produced by applying the benefit formula to their average earnings. This would result in lower social security benefits for about 2 million persons (1 million of the 3 million getting the minimum are also entitled to spouses' benefits higher than the benefit they get based on their own earnings and would not lose). Since about 500,000 minimum beneficiaries also get supplemental security income (SSI), they, too, would end up with the same amount of income because the means-tested SSI benefit would increase as the social security benefit decreased. This leaves 1.5 million people now receiving the minimum benefit who would have less income because of the change recommended by the administration

Another 800,000 people now receiving social security benefits, those young survivors and dependents 18 through 21 who are attending school, would also be cut drastically—25 percent the first year, 50 percent the second year, 75 percent the third, and then eliminated.

These 2.3 million persons have met all the requirements in the present law, have submitted proof that they have met the requirements, have received an award letter signed by the Commissioner of Social Security certifying their entitlement to benefits of certain amounts and are actually receiving such benefits. We believe it would greatly undermine faith in the general dependability of social security to take such action. If such cuts can be made for minimum beneficiaries, for example, who now receiving benefits is safe?

This proposal seems to be directly contrary to the position taken by President Reagan in the debate with President Carter on October 24, 1980, when he said in proposing a new task force on social security "* * * with the premise that no one presently dependent on social security is going to have the rug pulled out from under them and not get their checks." Later in the same debate he said that beneficiaries "* * * must continue to get those checks."

It is important to note that present law gradually phases out the minimum benefit by freezing the initial value of the primary insurance amount at $122. In the future an age 65 retiree will receive no more than $122 unless his or her preretirement earnings justify a higher benefit. Over the years—since all other benefits and the earnings requirements for eligibility are updated to current earnings—it will become increasingly unlikely that workers with sufficient earnings to be insured will be eligible at age 65 for a benefit of as little as $122. This provision is a good example of how a modification in social security policy can be made without the unfairness which comes from reducing benefits for those now receiving them or changing the rules in the middle of the game for those who are counting on getting benefits in the future.

The administration has also proposed that beginning in 1982 automatic cost-of-living benefits be paid in October instead of July and that they be based on a cost-of-living comparison over a full year rather than between two calendar quarters of the year as at present. According to the administration's estimates, these changes will result in a reduction in benefits of $6.3 billion for the 5-year period, 1982-86. Most of the cuts in the first 5 years will be borne by those now getting social security benefits, but the shift to a full-year comparison will reduce benefits for most current contributors.

All senior citizens oppose the various attempts being made to cut back on this important protection for social security recipients. Even the social security cost-of-living increases now payable do not maintain benefit purchasing power fully because these increases are provided long after rising prices. A January 1981 study by the Office of Management and Budget (Report on Indexing Federal Programs) states that, "Since 1975, social security recipients have experienced a 3.4-percent decline in real benefit levels due to the lengthy lag time in adjusting benefits during a period of accelerating inflation."

Although it has been argued that the current CPS at times overstates the inflation rate, a study by Data Resources, Inc. (DRI), shows that the elderly, as compared to younger consumers, spend more of their income in three categories of expenditures which are experiencing the most rapid price inflation. Food at home, fuel and utilities, and out-of-pocket medical expenses. The DRI study shows that since 1970 the cost of living for the elderly has risen faster than the cost of living for younger consumers. Between 1970 and 1979, the Bureau of Labor Statistics all-urban Consumers Price Index (CPI) rose an average of 7.2 percent compared to 8.3 percent for food at home, 9.4 percent for fuel and utilities, and 7.9 percent for medical care. These costs have risen at a composite rate of 8.4 percent per year versus a CPI rate since 1970 of 7.2 percent per year.

It may be that the current CPI tends to overstate increases in housing costs. From the point of view of social security beneficiaries, however, for every overstatement in the general CPI, there is probably at least one understatement in another expenditure category.

Cuts that will affect just about everyone now contributing

It is, of course, true that current contributors are affected by all permanent cutbacks in protection. The severe reduction in the protection furnished by the disability insurance program, and the severe reduction in retirement protection between the ages of 62 through 64 affect everyone; everyone's insurance coverage would be reduced. However in this section I will concentrate on four proposals that will reduce what current contributors get even though they never have to apply for disability benefits or retirement benefits prior to age 65.

The 1977 amendments to the Social Security Act provided that the protection of current workers will be kept up to date with the level of wages, automatically. (Once on the rolls, as is generally known, benefits are kept up to date with the cost of living as measured by the Consumer Price Index.) In essence, the automatic provisions which keep benefit protection up to date with wages provide for a stable

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replacement rate—that is, a constant relationship between the benefit paid and the wages earned by the beneficiary shortly before the benefit rate is computed. Thus, just as an example, the worker earning average wages (today about $13,800) will receive an initial benefit of a little less than 42 percent of recent earnings, providing the worker had been earning at the average rate over his or her career and retired at age 65. A couple would receive half again as much. Under the automatic provisions, this so-called "replacement rate" stays the same in the future, and in the year 2000 or 2025, while the dollar amount of benefits will have greatly increased, the "replacement rate" of approximately 42 percent for the worker regularly earning average wages will be the same. The provision resulting in a stable "replacement rate" applies also, of course, to workers earning lower than average wages and those earning higher than average wages. A major proposal of the administration is to reduce this "replacement rate" for just about everyone now contributing to the system. The cut for the average worker would be about 8 percent, with the "replacement rate" dropping to 38 percent. The "replacement rates" provided by present law are not excessive. In the great majority of cases those earning average and below average wages have only social security to look to as their retirement system, and while many of those earning above average wages will also have some income from a private pension plan, the combination of social security and the private pension plan income (since the "replacement rate" drops for higher paid workers) seldom reaches an amount sufficient at the time of retirement to provide a level of living comparable to that earned while at work. And after retirement the private pension income is eroded by inflation.

Another proposed change would importantly reduce family protection for current contributors. The maximum amount payable on a single wage record (that is, for a family of survivors or a family made up of a disabled or retired worker with dependents) would be limited to 150 percent of the worker's own benefit, whereas today, the maximum payable on a single wage record for survivors or families of retired workers can be as high as 188 percent of the worker's benefit. The proposal eliminates additional benefits for many families that have more than one dependent or more than two survivors. Present law does not pay excessive benefits to families if the ratio of benefits to earnings is measured, as it should be, by the recent or highest earnings of a worker. The argument that in a relatively small number of cases, total monthly benefits exceed the worker's lifetime monthly average of earnings seems irrelevant.

Another administration proposal would eliminate the lump-sum death benefit for insured workers who do not have a surviving spouse who has been living with the worker, or a child eligible for monthly benefits. The lump-sum benefit is now paid to the spouse who was living with the deceased worker. If the worker has no spouse, or if the worker's spouse was not living with him, the benefit is paid to the person or persons who paid the funeral expenses. The benefit is the lesser of: (a) three times the worker's primary insurance amount; or (b) $255. The dollar ceiling has been $255 since the early 1950's. In recent years three times a worker's primary insurance amount has, in every case, been more than $255 so that all lump-sum payments have been for $255.

It is very important to many people that they leave enough insurance to provide for their burial and to pay for the expenses of their last illness. They are greatly concerned that their death not be an expense to friends, family, or relatives, or that they not be buried at public expense. The current payment of $255 is clearly inadequate for this purpose but it, nevertheless, makes a contribution to the worker's sense of security. To move in the opposite direction and drop the benefit, except where there is a surviving spouse or child eligible for monthly payments, would lead many low-income people to buy the most inefficient type of private insurance—the so-called "industrial" policies which are sold door-to-door, with premiums collected weekly or monthly. Because administrative expenses for such policies are very high compared to their low face value, only about one-half or even less of the premium revenues are ever paid to claimants.

Protection against the cost of last illness and funeral expenses is a legitimate objective of social insurance and an efficient way of providing the protection.

The administration would also reduce benefits for just about everyone by averaging earnings over 3 additional years. Although affecting practically all current contributors, this provision reduces benefits particularly for those who for one reason or another are out of the labor force during some part of the time over which average earnings are computed, particularly married women with children, people with employment handicaps, and disadvantaged groups generally. It has a particularly harsh effect on people forced to take benefits at age 62, since the 3 years of zero earnings between 62 and 65 reduce the average on which their benefits are based.

Cuts that fall with special harshness on people who are not forced to take their benefits before age 65

The administration has proposed reducing benefits for people applying for benefits before 65 by over 40 percent by the end of the next 5 years. They would make this reduction by a combination of provisions. First, of course, the provisions previously discussed which affect just about all present contributors would also affect those who apply for benefits at 62. The "replacement rate" would be lower, and for this group, computing average earnings over 3 additional years would be particularly harsh. But there are, in addition, two special provisions aimed at those applying for benefits before 65. Those taking benefits at 62 would get only 55 percent of the amount payable at 65—which would have already been reduced—as compared with 80 percent today. A spouse would get only 27½ percent of what was payable to the worker at 65 as compared with 80 percent today. The 80-percent rate in present law was designed to be an actuarial reduction—that is, the lower rate payable beginning at 62 over a longer life expectancy, taking interest into account, results in the same total benefits paid at a higher rate over the shorter life expectancy from age 65 on. I have been unable to discover what the 55 percent reduction is based on.

It should be made clear that the reduction to 55 percent of the amount paid at age 65 permanently reduces benefits to this level over the lifetime of the recipient, just as the reduction to 80 percent does today; there is no increases when one reaches 65. It should also be made clear that there are also reductions for those who apply for benefits between 62 and 65. The reduction from the benefit rate at 65 to 55 percent of that rate at 62 is graded in over the intervening years.

The administration has also proposed that benefits for the children of workers who apply for benefits before 65 be eliminated entirely. This has not been taken into account in calculating the over 40-percent benefit cut.

Administration spokesmen have presented these extraordinarily severe slashes in benefits for those who apply prior to 65 as if this were an incentive feature designed to encourage people to work longer. Leaving aside the question of whether such punitive slashing of benefits can be currently labeled an "incentive," the unfortunate fact is that a great majority of people who are out of work and claim benefits at age 62 do so because they are in ill health or because their job has disappeared. In a study conducted by the Social Security Administration, over 70 percent of the men in this category applied for benefits for those two reasons—57 percent because of health, and 14 percent because the job had been discontinued. Only 22 percent were in good health, had a job, and voluntarily retired.[1]

A one-third cut in disability protection

Disability insurance protection under social security was substantially reduced by the 1980 amendments to the Social Security Act. The administration of the program has also become increasingly restrictive. Today about 70 percent of all applications for disability insurance are disallowed. Those receiving benefits are having their cases reviewed much more frequently than in the past. This part of the social security program does not have a financing problem. According to the estimates of the Board of Trustees it is adequately financed for the full 75 years over which the estimates are made.

Nevertheless, the administration is proposing a series of benefit slashes in the disability program that are even more severe than those recommended for the old-age and survivors insurance program and amount to about one-third of the protection now provided. It needs to be remembered, first of all, that the general reduction in "replacement rates" that was previously discussed applies also to disability insurance and that all the individual cuts aimed specifically at the disability program are on top of that reduction.

It should be remembered, too, that the proposed changes in the disability insurance program will make it much more difficult for workers between age 62 and 65 to become eligible for total disability benefits. In other words, an even larger number of those out of work at 62 for health reasons will have to apply for the greatly reduced retirement benefits because, if the new proposals pass, many who under present law would be eligible for disability benefits would no longer be eligible. So once again the age 62 to 65 group is greatly disadvantaged.

To a very considerable extent, the social security disability program is a program for older people. Approximately half of the beneficiaries are age 55 or more and three-fourths are age 50 or more. To be eligible they must be unable to engage in any substantial gainful activity. It is, of course, not surprising that as people grow

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[1] "Reaching Retirement Age," Research Report No. 47, U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, U.S. Government Printing Office, Washington, D.C., 1976, table 4.7, p. 47.

older more of them will meet this test, but the point is that the disability insurance program, to a considerable extent, is an alternative to a lower general eligibility age for retirement benefits. Disability insurance singles out those who can't work and limits the benefit payments to them.

The disability change that will affect the older worker particularly is the elimination of all factors in adjudication other than those that are medical. Under present law, disability determinations are made by looking at the whole person. In addition to strictly medical factors, the determination takes into account experience, training, and age. Thus, conditions that are considered completely disabling may be different for a professional person and an uneducated worker who can do only unskilled heavy labor, and may be different, also, for a 35-year-old and a 63-year-old. The proposal would eliminate those differences so that present adjudicative standards that are somewhat less strict for older people would be made more severe.

There are two proposals in the disability area which will make ineligible many totally disabled people who can get benefits under present law. These new provisions would require a much stricter test of recent employment. When the disability insurance program first became law, an individual to be eligible had to have worked not only during 5 years out of the last 10, the test today, but also during 1½ out of the last 3 years. This test of very recent employment was removed from the program because it became clear that many totally disabled individuals who had contributed substantially to social security were being barred from benefits unfairly. Many total disabilities do not occur at a precise moment in time. Unlike the person disabled in an automobile accident or by a stroke say, a worker may suffer from a degenerative illness that gets gradually worse. Since the definition of disability for social security purposes is very strict—inability to engage in any substantial gainful activity—a worker may be significantly disadvantaged in the labor market for a considerable period of time before he or she meets the definition. Thus it was not unusual to find workers with any one of a number of progressive diseases, such as emphysema or multiple sclerosis, who had a history of intermittent employment over a considerable period before a final determination of disability could be made. Thus there was a "Catch-22" situation in which the person was not quite disabled enough to qualify, but had such difficulty keeping a job that when he or she did become disabled enough, it was no longer possible to meet the test of recent earnings. The administration now proposes to restore this test and, in addition, to require that the individual work 7½ years out of the last 10, instead of 5 years out of the last 10.

The administration also proposes two other cutbacks in disability benefits. At the present time in order to get a social security disability benefit, a worker must be totally disabled for a full 6 months and then is paid for that sixth month. The disability must also be one which is expected to last for a total of at least 12 months or to result in death. The administration proposes to require that a worker be totally disabled for a full 7 months with a payment for the seventh month and that the disability be one which is expected to last for at least 24 months or result in death.

THE FINANCIAL STATUS OF THE SOCIAL SECURITY SYSTEM

The administration's proposals are put forward as if they were the only reasonable solution to a major social security financing problem immediately upon us. It is necessary, therefore, to examine the financial status of the social security program to determine if this is indeed the case. The following discussion is concerned entirely with cash benefits under social security; the factors affecting the financing of the medicare program are in many respects quite different.

It is useful to think about social security financing in three time periods—an immediate critical situation in the old-age and survivors insurance fund growing out of the economic conditions of recent years; a middle period covering roughly the next 25 years; and finally the remainder of the 75-year period over which actuarial cost estimates are made.

The old-age and survivors insurance fund (but not disability or medicare) will require additional income, at least during the next few years. The contingency reserves for this fund have been drawn down to low levels. Prices have been exceeding wages, causing higher than expected benefit increases under the automatic provisions, and income has been less than expected since income is determined by wage levels and the level of unemployment. This near-term problem is one caused entirely by economic conditions and, contrary to what one sometimes reads in the popular press, has nothing to do with an increasing number of older retired people as compared to the number of younger people at work. This short-term problem does require action soon but it can be quite minimal if Congress so chooses, or it can

be action which is designed to substantially build up the depleted contingency reserves.

The situation over the next 25 years is quite different, although, here, too, there is no demographic problem. During this period the large number of children born in the period following World War II—the so-called "baby-boom"—will be paying into the social security system and offset the increase in the number of people over 65. In other words, the relationship of payers-in to takers-out of the social security system remains relatively stable over the next 25 years. With even modest increases in productivity, the result is that social security expenditures as a percentage of covered payroll or as a percentage of GNP drops somewhat during this period. (See table below.)

When the "baby-boom" generation starts to reach retirement age about 2005 the situation may change. I have attached to this statement a discussion of some of the factors that affect social security costs in the long run (appendix B). Suffice it to say here, that it is clear the absolute number of people over 65 will greatly increase in the period from 2005 to 2030; they have already been born and the application of reasonable mortality rates to the population—including a substantial allowance for improved mortality—will produce a very big increase. This is certain. What is much less certain is the size of the labor force, and it is the relative size of the older retired population to those at work that determines the effect of demography on social security costs.

To summarize appendix B: There is no reason to expect that in the long run the economic burden of supporting the present social security law will be greater than it is today. (1) It is not at all clear whether, and to what extent, there will actually be an increase in the ratio of those drawing benefits to those paying in. (2) The total number of dependents per worker—old people and children—will not increase; there will be more older people, but fewer children. (3) It can be expected that the real wage level will be much larger in the long-range future than it is today—perhaps about twice as high by 2025 after social security taxes—so that any increase required in social security contributions would be easier for workers in the future to bear. (4) Under present law, social security benefits, as a percentage of gross national product, show a considerable drop between now and the early part of the next century and a relatively small increase thereafter. (5) Finally, the decrease in the part of workers' compensation subject to social security taxes may well have been exaggerated.

Immediately below is a table excerpted from the 1980 trustees' report showing expenditures as a percent of taxable payroll and expenditures as a percent of gross national product under the optimistic, intermediate, and pessimistic assumptions. As the table shows, the next 25 years, in all probability, is a period of declining relative costs for social security. Pay-as-you-go contribution rates would be approximatly one-half the expenditures shown as a percent of taxable payroll.

TABLE 27.—ESTIMATED EXPENDITURES OF OASDI SYSTEM UNDER ALTERNATIVES I, II, AND III, CALENDAR YEARS, 1980–2005[1]

	Expenditures as percent of taxable payroll by alternative			Expenditures as percent of gross national product by alternative		
	I	II	III	I	II	III
Calendar year:						
1980	10.81	10.87	10.89	4.77	4.79	4.83
1981	11.07	11.33	11.65	4.91	5.05	5.16
1982	11.05	11.32	11.85	4.91	5.02	5.17
1983	10.90	11.21	11.80	4.83	4.93	5.11
1984	10.68	11.11	11.34	4.74	4.88	5.10
1985	10.46	11.02	11.85	4 65	4.83	5.07
1986	10.27	10.94	11.85	4.58	4.78	5.03
1987	10.17	10.85	11.84	4.55	4.72	5.00
1988	10.06	10.75	11.83	4.51	4.66	4.96
1989	9.51	10.63	11.78	4.45	4.60	4.53
1990	9.73	10.52	11.74	4.37	4.55	4.91
1991	9.67	10.51	11.77	4.33	4.54	4.88
1992	9.63	10.50	11.78	4.30	4.53	4.85
1993	9.61	10.49	11.78	4.27	4.51	4.81
1994	9.60	10.49	11.78	4.25	4.50	4.78
1995	9.60	10.49	11.78	4.23	4.49	4.75

TABLE 27.—ESTIMATED EXPENDITURES OF OASDI SYSTEM UNDER ALTERNATIVES I, II, AND III, CALENDAR YEARS, 1980–2005[1]—Continued

	Expenditures as percent of taxable payroll by alternative			Expenditures as percent of gross national product by alternative		
	I	II	III	I	II	III
1996	9.54	10.45	11.74	4.19	4.45	4.71
1997	9.49	10.41	11.71	4.16	4.42	4.67
1998	9.46	10.39	11.69	4.13	4.39	4.64
1999	9.43	10.38	11.68	4.10	4.37	4.57
2000	9.40	10.37	11.69	4.08	4.35	4.60
2001	9.35	10.36	11.70	4.04	4.33	4.58
2002	9.30	10.34	11.69	4.81	4.31	4.58
2003	9.29	10.36	11.75	1.79	4.30	4.58
2004	9.31	10.47	11.16	1.99	4.11	4.58
2005	9.23	10.48	11.98	1.98	4.12	4.61

[1] 1980 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. U.S. Government Printing Office, Washington, D.C., 1980, p. 49.

PROPOSALS FOR STRENGTHENING SOCIAL SECURITY FINANCING WITHOUT CUTTING BENEFITS

There are three general approaches which could be taken. First of all, the Congress could take a very minimal approach, tiding the old-age and survivors insurance system over to the point where improved economic conditions—principally wages once again running ahead of prices as is normally the case—and the contribution rate increase scheduled for 1985 would very likely result in an adequately financed system for at least the rest of this century. According to the administration's estimates, the only step that would be necessary to accomplish this purpose would be to modify the law so that there was authority for the old-age and survivors insurance trust fund to borrow from the disability insurance trust fund and the hospital insurance trust fund. One of the tables which they released at the time they made their most recent social security proposals (appendix C) showed that the combined trust funds at the beginning of a year would not drop below 14 percent of the next year's outgo. This is a sufficient margin for cash-flow purposes. However, the administration's economic assumptions may not be correct, and it would seem wise, at a minimum, to provide authority to also borrow from the general fund, at least for a limited period of time or to provide for some countercyclical general revenue financing on a limited basis, as recommended by recent advisory groups. The main point, however, is that the short-term financing situation can be handled on a minimal basis if that is what the Congress wishes to do, given the fact that the next 25 years, as a whole, are favorable to social security financing.

On the other hand, there is much to be said for more fundamental changes which would build up the contingency reserves and avoid any possibility of once again having the social security system face financial difficulty.

Partial general revenue financing

Rather than cutting promised social security protection, our organization believes that it would be desirable to start making general revenue contributions to the social security program. Eventual Government contributions to social security were a part of the original design for the program and have been endorsed by several advisory councils and other groups since. There are several reasons for funding part of social security costs out of general revenues. The general taxpayer benefits from social security by the reduction of the tax burden of assistance and relief programs, by the contribution that social security makes to the general welfare, and by the reduction of the burden on sons and daughters of direct support of the elderly. Moreover it is desirable to have at least part of the cost of benefits which exceed the value of contributions—such as those paid to the first generation of retirees, those receiving the weighted benefit formula, and those receiving dependents' benefits—borne in part by the more progressive sources of general revenue rather than entirely by contributions based on earnings.

A schedule in the law that fully finances the program for 75 years

It is of some importance that the contribution schedule in the law meet all social security benefit costs and administrative costs under the assumption used by the

trustees over the whole 75 years for which the estimates are made. A balancing rate of about 7.4 percent of payroll, beginning about 2010, would accomplish this purpose if the cash benefit contribution rate were raised to 6.35 percent from 1985 to 2010, as proposed in the bill introduced by Congressman Pickle, the chairman of the Ways and Means Subcommittee on Social Security.

The rate scheduled for 2010, of course, would not be the rate that would actually be changed. As one approaches that year it would become clear what rate increase, if any, was actually needed, and according to the pay-as-you-go principles of financing the program, it probably would be desirable to stretch out any rate increase. Moreover, it is likely that some other method of partially financing the system would be considered desirable some 30 years from now. The purpose of putting the rate in the law, however, would be to show an awareness that under the official cost estimates, some increase would be needed at that distant point in time.

The effect of the administration's benefit cuts on financing

It should be noted that, according to the information released by the administration, the benefit cuts which they are proposing, amount to 3.20 percent of payroll. They are also recommending a benefit increase—dropping the retirement test—which costs 0.14 percent, is more than twice that needed to wipe out the estimated long-range deficit (occurring largely 50 to 75 years from now) shown in the 1989 trustees' report. The benefit cuts are estimated to amount to about $82 billion over the 1982–86 period, while under the administration's economic assumptions expenditures exceed income during this period by about $11 billion. The conclusion is inescapable that in recommending such radical reductions in social security protection the administration has more in mind than the financial stability of the program and seeks to cut back greatly on the role now provided for social security by present law.

Reflecting on the major assault on the social security system and the recent elimination of the minimum security payment, there is a serious danger that further cuts may be enacted.

We urge and will support all efforts to restore the minimum security benefit. If there are double-dippers receiving a Federal pension, one of the most lucrative pensions, and also minimum security payment, they can be eliminated. Cutting the total program was not necessary when it only needed amendments to fine tune the program to the needy people.

We would favor a proposal to increase income to the social security system by $1.3 billion in fiscal year 1982, by requiring the States and localities to follow the same time schedule in forwarding social security contributions as is now followed by private employers.

Under present law, State and local employees are covered under social security through voluntary agreements between the State and the Federal Government. Payment of social security taxes is made first by the various local jurisdictions to the State, which in turn deposits them with the Federal Government, together with taxes for the State's own employees. The States do not have to deposit social security taxes until 30 days after the end of the month in which services are rendered.

Although State and local governments are presently governed by the same rules as private employers with regard to depositing withheld income taxes, the present procedure for social security taxes results in the money being transferred to the Federal Government at a much slower rate than is the case for private employers. If the proposed change were effective in January 1982, there would be a considerable one-time increase in social security income ($1.3 billion for fiscal year 1982), and in later years there would be as much as $200 to $300 million a year in additional income because of interest and the speedup in next tax payments. Although the States may object to the loss, there seems to be no good reason why they should not conform to the schedule of private employers; failure to do so amounts to a subsidy to the States and localities from all other social security payers. This would seem to be the least objectionable way of meeting a major part of the $2.4 billion target for fiscal year 1982.

There is one other legislative proposal that deserves support.

As would be expected, some social security checks have never been cashed, and over the years the amount has built up to a sizable sum. The money to cover these outstanding checks has been transferred from the trust funds and has never been recredited. It should be assumed after a reasonable period that outstanding checks will not be cashed and the trust fund should again be credited with the outstanding amount. It is estimated that under a reasonable policy of crediting these outstanding amounts to the trust funds, they should be credited with about $225 million in fiscal year 1982.

CONCLUSION

The administration proposals for deep, deep cuts in social security and the acceptance of social security cuts in the first budget resolution of the Congress reemphasize the importance of separating social security financing and organization from the general budget and departmental structure.

We believe that institutional changes in the way social security is handled are needed in order to assure people that the program will continue to operate as an independent group insurance and retirement program, protected against the short-term policy swings of elected officials and political appointees and protected against the use of social security for budget purposes.

In the interests of protecting social security's long-term commitments, the separateness of social security financing should be made unmistakably clear. The purpose of the annual budget is to make choices among expenditures, giving preference in the budget period to one expenditure over another, and also to determine who pays what and how much for the expenditures. Social security promises—stretching into the distant future, resting on past earnings and contributions, and with separate financing—are not a proper part of this essentially competitive process. The obligations of social security should be "uncontrollable," because they are the product of an agreement to furnish certain protection in return for certain contributions (see appendix F for a fuller explanation of removing social security from the unified budget and setting up the administration of social security under a bipartisan board).

We believe that we can and must keep the compact we have made with our citizens young and old. The social security system has met the need of past generations and it is up to us to fulfill the promise for future generations. Together we can share our wisdom, to do what is right. If we study, deliberate, debate, we can do it. We are proof, if proof were needed, that workers leave a common interest with the retired, disabled, and surviving families of deceased workers in sound planning for income insurance. Everyone who is fortunate enough to live until retirement will need a regular, permanent income to replace the earnings that were previously the main source of support. We are all headed in the same direction—no one stays young. Also, any workers may become totally disabled before retirement, or he may die and leave surviving dependents. Planning for income security is not primarily a matter in which those at work help those who are not. We are all planning together for the kind of protection that we all need.

The information and recommendations contained in this testimony are based on talks, written material, and discussions with Robert Ball, the former Commissioner of Social Security and is the national leading authority on social security.

APPENDIX A

OASDI cash benefits in current-payment status, January 1981 [1]

Type of beneficiary:	*Average amount*
Retired workers and dependents:	
Retired workers	$342.29
Wives and husbands	172.38
Children	141.23
Disabled workers and dependents:	
Disabled workers	370.91
Wives and husbands	110.31
Children	110.49
Survivors of deceased workers:	
Widowed mothers and fathers	246.44
Children	239.87
Widows and widowers	311.46
Disabled widows and widowers	204.80
Parents	276.48

[1] Payable in the first week of the following month.

APPENDIX B

FACTORS AFFECTING LONG-RUN COSTS

In discussing the social security cost implications of the future demography of the United States, it is of the first importance that we be clear in distinguishing between those matters we can be quite certain about and those matters which are more speculative. The broad outline of the growth in the absolute number of the

elderly population over the next 50 years is quite certain—perhaps a 600,000-a-year-average increase in the number of those over 65 for about 15 years in the future, then a considerable slowing down in the rate of increase for 10, followed by a huge increase, averaging well over 1 million a year for the following 25 years, and then a more or less leveling off for many years after 2030. The people who will become 65 between now and 2045 have already been born, and the application of expected mortality rates (which include a substantial allowance for improved mortality) to the existing population produces the results described. In other words, give or take a few million, the number of people over 65 will rise from 26 million today to 35 million by 1995, rise relatively slowly for the next 10 years, and then be followed by a huge increase in just a 25-year period from about 37 million in 2005 to 65 million in 2030, with the number over 65 leveling off after that.

It is a fact that for approximately the next 15 years large numbers of people will be reaching age 65 because birth rates were relatively high in the period from 1915 to 1930. It is also a fact that the number over 65 will not increase very much for the 10 years after 1995 because of the low birth rates during the great depression. And it is a fact that the baby-boom generation of post World War II will be paying into the system until after the year 2000, and that it does not start to reach 65 until the early part of the next century. Since there continues to be a major growth in the 20-to-64-year-old group between now and about 2005, the increase in the absolute number of those over 65 for the next 15 years does not cause a demographic problem for social security, and between 1995 and 2005 there is little increase in the number of the elderly. Thus, over the next 25 years, as already stated, demographic changes are not likely to be adverse to social security financing.

There is a widely held belief, however, that shortly after the turn of the century, just at the time the number of elderly starts to increase so rapidly, the number of people paying into the social security system will come to a virtual halt and remain stable for many years. It is the possibility of this relative growth in the number of retirees compared to those at work that causes concern about the long-range financing of social security. Indeed there may be such an increase in the proportion of those drawing out of social security as compared to those paying in, but it is by no means of the same order of likelihood as the increase in the absolute number of the elderly. The decline in the number paying into social security depends upon a series of assumptions that are quite uncertain. Some of the most important of these assumptions are that we will continue to have low birth rates, immigration rates in the next century limited to the present legal level of about 400,000 a year, a major increase in disability rates over those being experienced today, and a work force that retires at about the same age as the work force today. These are the assumptions made in the last trustees' report and they may or may not turn out to be the case.

In addition, the trustees' report assumes that there will be a continued compounded increase in the proportion of workers' compensation paid in fringe benefits as compared to wages, so that higher social security taxes which apply only to wages will have to be higher than would be the case if the trend toward more and more fringe benefits were to moderate. Yung-Ping Chen, the research director of the McCanan Foundation for Research in Economic Security, has pointed out if wages and salaries were to remain at 84.2 percent of total employee compensation as they are today, then the pay-as-you-go social security tax rate would be considerably less than presently estimated. This is true because the official estimates assume that wages as a proportion of total worker's compensation will have dropped from 84.2 percent in 1980, to 71.5 percent in 2020, to 67.4 percent in 2035, and 62.2 percent in 2055.

Taking all of these assumptions together, then, on a strictly pay-as-you-go basis (no reserves), there would need to be a contribution rate for the cash benefit program (assuming it is entirely self-financed as it is today) from 2025 on of about 8½ percent of earnings as compared to 6 percent or less for the rest of this century. Would such an 8½ percent rate, if needed, be a greater burden than a 6-percent rate now? In all probability it would not.

First, we must recognize that the very assumption which produce an increasing ratio of older people to those at work also result in a declining ratio of children to those at work. If instead of the ratio of those over 65 to those 20 through 64, we take what has been called a total dependency ratio, the ratio of those over 65 plus those under 20 to the group 20 through 65, we get a much different picture than if we look only at the elderly. It just isn't true that reasonable demographic assumptions show a large increase in the number of dependents for each worker after the early part of the next century. Instead, what they show is a shift in the composition of the dependency group—fewer children, more elderly.

Today we have about 75 people either over 65 or under 20 for every 100 in the age group 20 through 64. Over the next 25 or 30 years this proportion drops steadily until it reaches a low point of 68 per 100 around 2010. In other words, up to that year there are actually fewer dependents per worker than we have now, and it takes until about 2020 to get back to where we are today. Even at the high point in the total dependency ratio in 2035, we get a ratio of only 86 per 100, as compared to 90 in 1970, and 95 in 1965. In the future, people may need to shift some of the resources that were once spent to raise children to building the kind of world they want for themselves and others in retirement, but they will have the means to do so.

Second, it can be expected, over the long run, that productivity increases translated into higher levels of living will make any increase in contribution rates that might be necessary easier to bear. Most people do not question some increase in productivity in the future. The argument is mainly over how large these increases will be. Modest increases of 1¾ percent a year, on the average—for example, the trustees' assumption of a 4-percent annual price increase and a 5¾-percent wage increase over the long run (a much lower percentage increase than the 2 to 2.5 percent which, up until recently, has been the historical average)—translate into a doubling of real wages after social security taxes by about 2025. As a percentage of GNP, social security cash benefits, according to the intermediate estimates of the board of trustees, gradually drop from 5.05 next year, to 4.30 by 2005, and then rise to a peak of 6.36 in 2030, falling again to 5.82 in 2055. It would be unwise to make reductions in social security protection now based on the notion that in the distant future the cost of the present social security law will somehow become much more difficult to support. This is not likely to be the case.

And, in any event, an 8½ percent rate is not an overwhelming burden, even today. German workers already pay 8 percent for old-age, survivors, and disability insurance protection, and, in addition, the general revenues of the German Government pay for 19 percent of the cost of the system.

Appendix C

Fund ratios at start of year under administration's expected economic conditions [1]—Fund balance

Calendar year:	*Percent*
1981	23
1982	21
1983	18
1984	16
1985	14
1986	16
1987	22

[1] Balance in combined old-age and survivors insurance trust fund, disability insurance trust fund, and hospital insurance trust fund at beginning of year as percentage of outgo from trust funds in coming year (i.e., assumes availability of interfund borrowing).

Appendix D

Reducing benefits for those who retire before 68

We are completely opposed to this proposal. This is just another way of cutting benefits. Benefits would be paid at 65 but the amounts would be substantially lower than would be called for by present law, and the amounts now payable at 65 would not be payable to anyone who claimed benefits prior to 68. This is a major reduction in protection that has not, as yet at least, been recommended by the Reagan administration.

The proposal in its usual form would start to grade in many years in the future and is apparently designed to reduce a deficit in the social security system now estimated to occur in the period 25 to 75 years from now. (See appendix B to learn why we believe that the official long-range cost estimates are not a sufficient basis for concern about the long-range financing of the present social security system.)

As the social security program is now set up, there is a very flexible approach to retirement. A person can retire with full benefits at age 65 or later, or with reduced benefits at a younger age. Under present law, beginning in 1982, benefits will be increased 3 percent between the age 65 and 70 for each year retirement is postponed, and benefits will be payable at age 70 whether one continues to work or not. These arrangements give people a choice that should continue.

Even in the long-range future there will be large numbers of people who will be forced to give up their jobs before age 68 because of ill health or because the job disappears. Under this proposal such people would get lower benefits. These are the very people who are being asked to pay larger social security contributions over their working lifetime.

APPENDIX E

ENACTED AND PROPOSED CUTS

The minimum benefit

As discussed in the body of the statement, present law provides for the gradual elimination of the minimum benefit. To drop the promised benefit, as proposed by the committee, for people approaching the age of eligibility, seems unfair and certainly unnecessary in order to obtain the fiscal year 1982 budget objective. This change contributes little saving in fiscal year 1982.

Two misunderstandings about the minimum benefit have gained widespread currency and have influenced the debate about this benefit.

(1) It is not true that most minimum beneficiaries are Federal employees who picked up minimum benefit protection by working for short periods of time in social security covered employment. The percentage or minimum beneficiaries who are Federal employees is probably somewhere between 6 percent (a study conducted by the Department of Health and Human Services) and 15 percent (a study conducted by the General Accounting Office).

(2) It is not true that only 300,000 beneficiaries, as claimed in the Senate debate on the budget resolution, would be worse off because of eliminating the minimum. The correct figure as indicated in the body of the statement is 1.5 million.

The elimination of benefits for survivors and dependents 18 to 22 who are attending school

Since the social security admendments of 1965, the life insurance protection that workers have been paying toward has included the continuation of survivors' benefits to children after age 18 and through 21 if the child attends school full time. The full-time school attendance requirement may be satisfied in high school, technical school, junior college, or regular college. Such benefits are also payable to sons and daughters of retired or disabled workers under the same conditions. Some 800,000 young people attending school are now receiving social security benefits to partly make up for the loss of parental support due to death, retirement, or total disability.

The ability to provide at least some help toward the continued schooling of one's children in the event one dies, retires, or becomes disabled has seemed an important protection to many workers. We do not agree that these social security benefits should be dropped and that sons and daughters of deceased, retired, or totally disabled workers should look instead to the basic educational opportunity grant program for low-income students and a revised student loan program that would have income limitations. Moreover the grant program has not been fully funded in the past, and, under the budget proposals, the funding is substantially decreased in both 1981 and 1982.

Given the current cost of higher education, very frequently, in any event, the social security benefit needs to be supplemented by the other programs, just as parental support from those who have *not* died, retired, or become totally disabled needs frequently to be supplemented by the grant and loan programs. The partial replacement of parental support by the social security benefit helps to equalize educational opportunity for these young survivors and dependents of retired and disabled workers. It is not in conflict with programs designed to supplement parental support.

Terminating mothers' and fathers' benefits when child attains age 18

The proposal would end entitlement to benefits for a mother or father caring for a child who receives child's insurance benefits when the child reaches 16 rather than age 18, as under current law. (The provision would not apply in the case of a parent caring for a disabled child age 16 or over.) The change would be effective with respect to current beneficiaries at the end of 2 years after the month of enactment and would be effective for parents becoming newly entitled in, or after, the second month after enactment. This is a reduction in benefit protection that would affect people who now have every right to count on the continuation of a benefit.

Rounding to the next lower dollar

This change would provide for rounding monthly social security benefit amounts to the next lower dollar as the final step on determining the benefit payment rather than to the next higher 10 cents as under present law.

Such a change would be bad public relations for the social security program. It is relatively minor to its impact on each beneficiary, but it will seem unfair for the Government to always round down.

Eliminating trust fund payments for rehabilitation

The repeal of the program that provides social security trust funds for the rehabilitation of disabled social security beneficiaries and replaces it with reimbursement to the States for rehabilitation services only if the rehabilitation is successful—that is, the beneficiary returns to work.

The disability insurance fund has reimbursed the State rehabilitation agencies for the cost of rehabilitating social security beneficiaries since 1967. The provision was adopted because, with limited funds from regular rehabilitation programs available, the State agencies tended to avoid the very seriously disabled social security beneficiaries in favor of those with only partial disabilities who were easier to rehabilitate. From social security's viewpoint, paying for rehabilitation is a good business proposition. Every beneficiary who goes to work saves the program money.

Since under the substitute proposal, the States get paid only if the rehabilitation is successful, they are less likely, once again, to take on the more serious cases. This is not a desirable proposal.

APPENDIX F

TAKING SOCIAL SECURITY CUT OF THE UNIFIED BUDGET AND ADMINISTERING IT THROUGH A SEPARATE BOARD

We need to make some institutional changes in the way social security is handled in order to assure people that the program will continue to operate as an independent insurance system, protected against the short-term policy swings of elected officials and political appointees. Under social security, workers are creating rights for their retirement which may not occur for 40 or more years down the road. They should feel secure that those rights will be respected. It is not enough to have the system operated as part of a Cabinet department with a President appointing both the Cabinet Secretary and a Commissioner of Social Security. Social security should be handled in a way more in keeping with the obligations of the huge pension and group insurance plan that it is. We propose that the policy functions be performed by a board of directors with staggered terms, appointed by the President and approved by the Senate, and that the board, in turn, have the right to hire and fire the chief executive officer without regard to usual civil service rules. The power to set benefits and the financing of the program would, of course, remain with the Congress and the President as it is today. We believe, too, that the financing of the program should be made entirely independent of the unified budget as it was prior to fiscal year 1969. Only in this way can the program be protected against attempts to use social security as a tool of short-term budget policy.

It would add significantly to public understanding of the trustee character of social security as a retirement and group insurance plan if the program were administered by such a board directly under the President and if its financial transactions were kept entirely separate from other Government income and expenditures. Social Security has nearly 90,000 employees and some 1,300 district offices across the country; it is one of the very largest direct-line operations of the Federal Government. It does not make sense administratively to have this huge program, which intimately touches the lives of just about every American family, operated as a subordinate part of another Government agency. The management of social security could be made more responsive to the needs of its beneficiaries and contributors if it were free from the frequent changes in the levels of service to the public which grow out of short-term decisions about employment ceilings and the varying management value systems which follow the frequent changes of HEW Secretaries and their immediate staffs. But most importantly, an independent board would be visible evidence that contributory social insurance was separate from other Government programs.

In the interests of protecting social security's long-term commitments, the separateness of social security financing should be made unmistakably clear. The purpose of the annual budget is to make choices among expenditures, giving preference in the budget period to one expenditure over another, and also to determine who pays what and how much for the expenditures. Social security promises—stretching into the distant future, resting on past earnings and contributions, and with sepa-

rate financing—are not a proper part of this essentially competitive process. The obligations of social security should be "uncontrollable" in the sense that they are the product of an agreement to furnish certain protection in return for certain contributions.

The inclusion of social security transactions in a unified budget is bad for other reasons as well. It leads to a distortion of the decisionmaking process in other programs. Excess of income over outgo in social security operations for the short run tend to be used as an excuse for financing additional general revenue expenditures since social security income, though legally reserved for social security expenditures, is not treated in the budget the same way as general revenue income and shows up as if it were available money. Contrariwise, short-run social security deficits, financed from the reserves, lead to unwarranted reductions in other Government expenditures because everything is included together in the budget ceiling set by the executive branch and the Congress.

Just about every American has a major stake in protecting the long-term commitment of the social security program from fluctuations in politics and policy. The administration of social security by a separate board and the separation of social security financial transactions from other Government income and expenditures would strengthen public confidence in the security of the long-run commitments of the program and in the freedom of the administrative operations from short-run political influence. It would give emphasis to the fact that in this program the Government is acting as trustee for those who have built up rights under the system.

We must make it known beyond the shadow of a doubt that the U.S. Government will fully carry out its compact with contributing workers under social security—that the Government, as insurer, will meet its obligations as they fall due. Social security is a Government promise that must be honored.

Senator PERCY. Thank you very much.

The two options that have received the most attention in Congress to solve the long-term financing problems of social security are first the President's, to reduce benefits for early retirees, with a slight reduction in benefit levels for all retirees, and then a proposal introduced by Congressman Pickle and Senator Chiles, to raise the retirement age from 65 to 68.

Given sufficient time for phasing in—and I insist that we have sufficient time for phasein—which proposal do you believe is more equitable and why, and I would like an answer from both of you.

Mr. Sell.

Mr. SELL. First of all, I have always had a little bit of difficulty persuading myself that there is anything sacred about the ages of 62 or 65 or any other age. These ages were selected rather arbitrarily I think, initially, and I believe the important thing is that we do what is necessary and what is required. I don't know whether I have the expertise to tell whether we should raise the retirement age to 68.

But I do believe we should discourage early retirement. That is one thing I am convinced of. If increasing the full benefit to age 68 is necessary for the health of the social security system, then I say by all means do it, because we do want to establish a permanent, long-term social security system, for the benefit of not only ourselves but for future retirees also.

Senator PERCY. Thank you.

Mr. Prete, a brief comment from you, and you can expand it for the record.

Mr. PRETE. I am against the change in the retirement age. I think that if that isn't put off until some distant date—and it can't be immediately. First of all, the administration bases everything on the immediate crisis that we have right now. The long-term changes I think need further study. The actuarial tables need to be

brought into play. We have to know what the work force is, and what will the work force look like when it approaches age 62.

Now, just as Mr. Conlon pointed out, the coal miner who has black lung disease and wants to retire at 62 ought to be able to do that, because he doesn't have too many years. The same thing with the chemical factory worker, and other workers who have hard and arduous jobs.

I don't think we have a clear picture of what the work force will consist of further down the road, and I think we need to take the time to look at that picture and possibly—at the moment I would say we would be opposed to it, the age 68 retirement.

Senator PERCY. Mr. Prete, do you support phasing out the earnings limitation, and if not, why not?

Mr. PRETE. We do not support the phaseout of the retirement limitation, for one reason—it is only about 5 or 6 percent of the possible social security recipients that really would have a benefit from it.

It is those people, such as professional men who work beyond age 65, who could get the social security benefit. We're talking about people who make darned good money. For instance, you yourself can continue working until you don't want to be a Senator any more. Under the present system, you would not be getting social security benefits until you retired and did not have that income.

I think that that's where we have a problem with the retirement test. I think there again—I don't want to jump to conclusions. I would like to see the same process—when we had to come in and testify for the cost of living—Senator, do you remember those hearings? They were long and arduous. They took time. I think we ought to have the same kind of process on every one of these factors, subcommittees to bring in all the data that is needed to make the right decision. Because millions of people's lives will be affected by those decisions, and I don't think they need to be made hastily.

Senator PERCY. Thank you very much.

Could both of you give me a brief reaction to the administration's proposal to eliminate so-called windfall benefits for Government employees? I have asked this question of most of the other witnesses.

Mr. SELL. First of all, the associations would be opposed to eliminating the windfall. Personally, I think it would be a very good idea. I have to be honest about it.

Senator PERCY. Well, you're in the same position I am in many times. The Senate of the United States takes one position by a majority vote, and I have the right to take another position. I am glad to see you have a right to express a personal viewpoint. And I respect your organization for giving you that right, because you are here individually testifying because of your own deep background, but also representing your organization.

Mr. Prete.

Mr. PRETE. Well, here again, I am saying the same thing again.

But Congressman Michel made a big pitch about the double-dippers—and that's the magic word—those who are on Federal pensions, those who have other pensions which are adequate,

buying into the social security system and getting an additional benefit.

What's the American system? You know, we try to find out which way is best for everybody. I think if there are people who are getting substantial Federal pensions and other benefits—you know, where do you draw the line? What about the manager of a fairly good company and has a good pension plan. He is also entitled to social security benefits. Where do you draw the line for somebody who works for a small business and he builds up a good IRA account, but he still draws social security. I think—you see, the thing about it is, there are no simple easy answers to these things, and I don't think that is fair, to say—Congressman Michel was very quick to say, "We have to get rid of the double-dippers," but he also got rid of 1½ million people who needed that minimum security payment. That's not the way to do it. We didn't build this system by just pushing things through. We built it by carefully thinking it out and working it out together.

I don't want to see that process used again. I am terribly opposed to the meat ax approach.

Senator PERCY. As you know, there is a growing opposition in Congress to the use of general revenues to get the social security system through its short-term financial crisis. Of course, the administration strongly opposes turning to general revenue because of its impact on the goal of balancing the budget.

Because of this, it may be necessary to turn to other solutions. I will name three solutions. Which of the following short-term solutions do you think would be most equitable?

First, some changes in the way the cost-of-living adjustment is computed. Second, reducing benefits for one group of beneficiaries, as the administration has suggested, such as early retirees. Third, stricter eligibility requirements for disability insurance. Or fourth, any other idea that you prefer above any of those three.

Mr. SELL. What we think is the most equitable one?

Senator PERCY. Yes, the most desirable.

Mr. SELL. I would say raising the early retirement age would be the most desirable one, I believe, Senator.

Senator PERCY. Mr. Prete.

Mr. PRETE. I think the most beneficial way—because every survey shows the American people support the social security system, including the younger worker. We ought to borrow from general funds. Just as interfund borrowing has been going on for years. Senator, this is not new. I don't think the American public realizes. They have borrowed from interfunds for years. When they have shortfalls in one department, they have taken money out of there and it was short term. I think the same thing goes with social security.

This is not new, interfund borrowing; is that correct, Senator? Absolutely. They've been doing it for years. But now, because of social security, they make a big issue about it. Well, I think they ought to keep the rules the same way as it was done in the past.

We know it's a short term. What do we need to carry it over? Borrow it from general revenues. They have borrowed from the social security trust funds before, the Government did, time and

time again. When we had problems with the Vietnam war and our dollars, isn't it true, Senator, we borrowed from that fund?

Yes, we can borrow from those funds and take care of these debts. Further down the road, we can make it go. I know it, because even their pessimistic statistics tell us it is only short term, up to 1984, and then beyond we are going to be—we have time and room to plan and think this thing through. Maybe it is a later retirement age. Maybe it is something else. Maybe somebody will come along who will be a brighter and smarter person and he will come up with the real answer.

Senator PERCY. I want to thank you very much indeed.

All of you who have been here today, I cannot tell you how much I appreciate the interest that you have, the concern that you have. Because we're all aging ourselves, or we have uncles, aunts, and grandparents, whatever it is, that will be there, and we seem to care about them. That's why I didn't rule out applause, as we do in all official Senate hearings. I just wanted to hear you react and I wanted to hear what you had to say.

I would like to say before we adjourn, I want to thank our witnesses particularly for being here. Many of them spent many, many hours and days preparing their testimony and making a contribution to this very productive session. The testimony presented today will become an official part of the Senate Aging Committee record.

I have also been told by Senator Bill Armstrong, who is the chairman of the Social Security Subcommittee of the Senate Finance Committee, that he is planning to get together a bipartisan group of Senators in September to start dealing with long- and short-range options for reform in our social security system that will insure and guarantee its solvency. He has invited me to participate as a part of that bipartisan effort. I know Senator Heinz will also be participating, and I can assure you I will want to report back to you in special letters that I send.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

APPENDIXES

Appendix 1

MATERIAL SUBMITTED FOR THE RECORD

ITEM 1. EXCERPTS FROM THE 1981 FEDERAL AND STATE LEGISLATIVE HANDBOOK OF THE NATIONAL RETIRED TEACHERS ASSOCIATION/ AMERICAN ASSOCIATION OF RETIRED PERSONS, SUBMITTED BY ROBERT J. SELL[1]

Short-Term Social Security Difficulties

Social security is faced with a serious short-term deficit. Congress has little choice but to develop a remedy for this deficit in 1981, since exhaustion of the old-age and survivors insurance (OASI) fund's contingency reserve is otherwise expected to occur in 1982. In the aggregate, the social security cash benefit programs could be facing as high as a $70 to $100 billion shortfall over the next 5-year period.

This short-term deficit situation has been caused by adverse economic conditions. Higher than expected inflation rates have increased social security expenditures (by driving up benefit costs) while, at the same time, the combination of higher than expected unemployment rates and lower than expected real wage and real GNP growth rates have curbed revenue to the system.

Since these adverse economic conditions are not likely to subside significantly over the next few years and similar future events cannot be accurately forecast, the associations recommend that general revenues be channeled into the system in a manner that specifically isolates and addresses the economic causes of the problem. Specifically, to augment the payroll tax mechanism, two general devices should be established—one to compensate the system for a portion of the increased costs it must bear to finance automatic cost-of-living adjustments, and the other to replace some of the revenue lost by the system as a result of high unemployment rates and lower than expected productivity growth.

Proposals to reduce or tax social security benefits to deal with the short-term financing problem should be rejected. Given the elderly's increasing poverty rates, their disadvantaged income situation and the magnitude of the inflation losses they are already sustaining, they represent one segment of society that should not be subject to legislated benefit curtailments. (See tax policy section for further discussion.)

Mandating social security coverage for public employee groups has been proposed as a source of short-term social security revenue. The associations oppose such measures on the grounds that employee groups which are presently not covered by social security should not be forced into the system, especially in the obviously unfair manner contemplated by these proposals. Instead, all such groups should have the option and be encouraged to elect social security coverage.

Also surfacing in the context of the short-term financing problem are proposals to finance all or part of the hospital insurance (HI), medicare part A program out of general revenue and, at the same time, shift part of all of the HI portion of the payroll tax to the cash benefit programs. The associations view this proposal as an inappropriate and inadequate response to the financing dilemma. First, the amount of payroll taxes freed up by this proposal is likely to be insufficient to cure the short-term deficit. Second, it would not infuse general revenue into the cash benefit programs in a manner that would provide the kind of automatic protection from economic adversity that these programs need. Furthermore, over the longer term, funding medicare out of general revenue will not only make expansions of program benefits difficult, but it could also weaken the entitlement concept of the program and lead to a means-testing.

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[1] See statement, page 51.

Social Security Long-Term Financing Dilemma: Comprehensive Changes Are Needed

Over the long term, social security's financial situation will reflect the effects of several major trends. First, there are the previously discussed economic trends which will continue to restrict the amount of resources available for social programs. Second, there is the demographic trend which portends a relatively smaller working population being called upon to support a larger, older population. Third, there is the declining elderly labor force participation rate which could exacerbate the consequences of the demographic trend and cause a dangerously high degree of dependence among the elderly on Government programs for income. Finally, there are the changing family and social patterns which are causing the system's benefit and financing structures to be increasingly perceived as unfair, particularly by working wives and single workers.

The combined impact of all these factors will make it clearly undesirable and probably impossible to continue social security as presently structured into the next century. If that were attempted, either a massive payroll tax increase or benefit cuts of equal magnitude (through such steps as raising the age for full benefits and/or price indexing the earnings record or benefit formula used in calculating benefits) would be prompted.

To avoid having to choose between large payroll tax increases and a piecemeal dismantling of the system's benefit protections, the associations recommend comprehensive changes in the system's benefit and financing structures. The primary goals of changes in social security, as well as changes in the other components of the income support structure serving the elderly, must be the elimination of poverty and reasonable guarantees that older persons will be able to achieve and maintain an "adequate" income. To be adequate, an older person's income should be sufficient to maintain in the later years of life the highest standard of living achieved in earlier years. Social security must continue to be relied upon to provide the major component of the elderly's income. But to achieve the adequacy goal, social security must be reinforced by income from private sources, particularly employment, private pensions, savings, and other assets. To the extent that income from all sources is insufficient, then the underlying welfare programs should be relied upon to guarantee at least a minimum income above the poverty threshold.

Any plan for changing social security to accommodate the trends and achieve these goals must be gradually phased in. Lengthy transition periods must be provided to protect the reasonable benefit expectations of people.

To be comprehensive, the changes must attempt to accommodate and, in some cases, help reverse the trends which are adversely affecting the system. These changes should encourage employment (especially among the elderly), assure that scarce resources are utilized in an effective and efficient manner, improve public support for the programs, and alter the financing structure so that it contributes to, rather than detracts from, the Nation's economic health.

To achieve these objectives, social security, after having undergone comprehensive change, should include the following:

- —A benefit structure that strongly encourages older persons to maximize their work effort and delay their retirement dates.
- —A more diverse and less inflationary financing structure that would use separate tax mechanisms to finance social security's divergent functions of earnings replacement and social adequacy.
- —A benefit structure which clearly separates the system's earnings replacement and social adequacy objectives and, in the process, treats individual workers (particularly working wives and single individuals) in a more equitable manner and targets benefits in a more cost-effective way.

Changing Social Security So That It Promotes Rather Than Discourages Elderly Work Effort

A number of changes need to be made in social security in order to promote elderly labor force participation. These include the phasing out of work disincentives, including the earnings limitation and the phasing in of work incentives such as larger benefit credits for those who elect to delay their retirement past age 65.

Because the earnings limitation is a major and visible work disincentive, it should be phased out over a fixed number of years for persons 65 and over. Having a factor in social security that causes people to limit their work effort imposes a significant net "cost" on society. It is estimated that the economic "cost" in terms of the value of the lost output of goods and services and the total of lost tax receipts that results from having the earnings limitation is far greater than the "cost" of the additional social security benefit outlays that repeal would entail. A Social Security Adminis-

tration (SSA) study released in late 1979 concluded that the abolition of the social security earnings test for persons age 65 and over would generate enough revenue ($1.65 billion) from payroll and Federal income taxes alone to offset nearly 80 percent of the $2.1 billion which SSA has estimated it would cost to repeal the test.

In order for social security to provide strong work incentives, the associations recommend, as a first step, that the delayed retirement credit be substantially increased. Under present law, individuals who elect to delay applying for social security benefits are entitled to a 3 percent bonus (beginning in 1982) for each full year they continue to work after age 65. By increasing the delayed retirement credit to a level of 8 to 10 percent, the credit would provide a strong incentive to delay retirement.

When considering changes in social security that would encourage elderly employment, it is important to rule out proposals that appear as though they should be—but actually ought not to be—considered in this context. Under one such group of proposals, the age at which full social security benefits are available would be raised from age 65 to 68. Some of these proposals envision that, at the same time, the early retirement age would be raised from age 62 to 65. Presumably the age for entitlement to medicare would also be raised to age 68.

This proposal appears to provide a simple, straightforward response to the adverse demographic and employment trends. However, in our opinion, the age 68 proposal—simplistically appealing though it may be—will not yield the additional work effort its proponents expect and at this time would be the wrong policy option to exercise. Not only would these "age 68" proposals substantially decrease and, in some cases, eliminate benefits for future older persons between the ages of 62 and 65 who are involuntarily unemployed or physically unable to continue working, but they would also represent a highly visible benefit cut (and reduction in the expected return on contributions) that could undermine younger worker's support for the programs.

Although life expectancy rates have been increasing, nevertheless, the majority of the elderly, particularly minority groups, are continuing to elect early retirement benefit despite the 20 percent actuarial reduction in benefits they incur when they elect benefits at age 62. One recent survey indicated that about half of the persons surveyed who had recently retired cited impaired health as the reason for their retirement decision.

These trends indicate that, instead of getting additional work effort and therefore additional tax revenue from the future elderly population, the age 68 proposal would merely cut social security expenditures, leaving a large segment of the future elderly population to subsist on substantially reduced benefits with an enhanced likelihood of poverty.

To be successful in getting the elderly to maximize their work effort, the social security benefit structure must be changed so that first, it ceases to penalize older persons for continuing to work, and second, it clearly compensates them for working longer. Changes in the benefit structure that have, in the aggregate, good prospects for increasing elderly work effort will, in turn, help raise the tax revenues needed to finance social security (as well as other income support programs) at benefit levels that will be adequate for the future, larger, elderly population.

Separating Social Security's Earnings Replacement and Welfare/Social Adequacy Functions To Achieve a More Efficient, Less Wasteful Utilization of Scarce Resources

The current social security structure contains a mix of earnings replacement and welfare/social adequacy functions. To carry out the earnings replacement function, benefits are loosely tied to prior earnings histories. To carry out the welfare/social adequacy functions, benefits are computed utilizing a heavily weighted formula which provides relatively higher benefits (in relation to prior earnings) to lower wage earners and relatively lower benefits to higher wage earners. Minimum benefits are also provided with the intention of assisting long term, low wage earners. In addition, benefits are also provided to workers' dependents whether or not they have ever contributed to the system.

Certainly, the carrying out of both earnings replacement and welfare/social adequacy functions is appropriate within the context of programs that constitute social security. However, social security, as currently structured, attempts to perform these often divergent and conflicting functions utilizing one benefit structure and one tax mechanism—the payroll tax. This intermingling of functions has led to many benefit and payroll tax inequities and generated much waste and duplication. Indeed, it has financially impaired the system's ability to achieve fully either of the goals of sufficient earnings replacement and the elimination of poverty.

As a result of the intermingling of functions in the current structure, many higher income persons, for example, receive unintended benefit subsidies from the system's welfare/social adequacy elements and, ironically, these benefits are largely financed by the tax payments of lower and middle income workers and their working spouses. At the same time, many lower income persons who are truly needy and who have borne a disproportionate share of the payroll tax burden throughout their working lives are unable to attain even a bare subsistence level of living on their social security benefits. These situations have led to the perception by an increasing number of workers, especially wives who work outside of the home and single workers, that the system's benefit and financing structures are unfair, wasteful, and do not yield a fair rate of return on their contributions.

In the past, social security mixed the earnings replacement and welfare/social adequacy functions without suffering any significant decline in public support. A favorable ratio of beneficiaries to workers and healthy economic growth rates made it financially possible for the system to provide large benefits in relation to what beneficiaries had contributed to the system throughout their working lives. In the future, however, beneficiaries may receive diminishing, and perhaps in some cases, negative rates of return on their social security contributions. This is likely to occur due to several factors: The dramatic age shift in the population, the large payroll tax increases that are already scheduled (and the additional ones that are expected), the possibility of large benefit cuts (such as raising the age for full benefits), unfavorable economic conditions, and the relative scarcity of financial resources.

Under these conditions, the system is bound to be scrutinized as to how it functions, who pays the taxes, and who receives the benefits. Therefore, to reduce the increasing benefit and tax inequities inherent in the present structure and assure that the system as a whole operates in a cost-effective manner, the associations recommend that social security's earnings replacement function be clearly separated from its welfare/social adequacy functions. These functions should be retained within the social security system's total structure but sorted out between at least two separate benefit and financing mechanisms.

The earnings replacement function should be carried out through a benefit structure which utilizes a proportional (or uniform) benefit formula and stresses individual equity in awarding benefits. This benefit structure should be financed from payroll taxes. The welfare/social adequacy functions should be carried out through a benefit structure specifically designed to meet those objectives. This latter structure should be financed out of general revenues generated from diverse and progressive tax mechanisms. Since the escalating payroll tax burden, which is inherently inflationary and leads to higher unemployment, only aggravates current economic problems and makes them more intractable, it makes sense to shift the financing of social security's welfare/social adequacy functions to alternative and less economically damaging revenue sources.

Should healthy economic growth rates such as those the Nation enjoyed in the 1960's fail to resume in the future or should the cost pressures that will accompany the aging of the post-war baby boom population prove more difficult to deal with than is anticipated, then at least a restructured system would allow future policymakers to make coherent and rational choices regarding the allocation of scarce resources. Government would be better able to target benefits on the more economically disadvantaged segment of the elderly population. This is something that is nearly impossible to do under social security's current structure.

Other Possible Choices for Dealing With Social Security's Long-Term Deficit

Given the magnitude of the projected long-term social security deficit, proposals have been advanced that would alter the way in which future benefit awards would be computed. Generally, these proposals would substitute price indexing for the wage indexing in the current method used to calculate initial benefit awards. Since increases in wages generally outpace increases in prices, these proposals would greatly reduce future social security benefits and do damage to the economic well-being of the future elderly.

According to the recent Social Security Administration estimates, using price-indexing in computing initial benefits would cause replacement rates (the rate of initial benefit awards to final years' earnings) for average earners (retiring at age 65) to fall from 51.1 percent in 1980, to 33.2 percent in 2010, and to 22.3 percent by 2055. Under price-indexing, social security income for most earners would be reduced by over one-third by 2010, and cut in half by 2055, when compared to the income that the present system yields to current retirees.

Clearly, these price-indexing proposals would substantially shrink the role of social security, causing it to contribute far less than the current system would to

the future income of the elderly. Proponents of these proposals argue that the purchasing power of future benefit awards would be maintained at current levels under a price-index system. This argument, however, attempts to mask the fact that price-indexing would cause the living standards of the future elderly to decline greatly, because a far smaller share of preretirement earnings would be replaced by the system. Since social security is, and is likely to continue to be, the primary source of income for the elderly, it is inevitable that price-indexing of the benefit formula will not only cause a significant deterioration in living standards, but also a resurgence of extremely high proverty among the future elderly.

In attempting a deal with social security's long-term difficulties, Congress can choose between two reform strategies. Either it can risk an erosion of public support by attempting to perpetuate the system's present benefit and financing structures and thereby be forced either to raise payroll taxes or reduce benefits. Or it can attempt to restructure the system so that the system, first, encourages (rather than tries to force) older persons to work longer and elect to delay their retirement, and, second, allocates scarce resources as cost efficiently and effectively as possible by using separate benefit and financing structures to carry out the divergent earnings replacement and welfare/social adequacy functions. The associations support this latter reform strategy. Not only would it relieve cost pressures on the system, make it a more equitable and therefore popular program, and improve its financial viability, but it would also increase the future elderly's prospects for achieving income adequacy and avoiding poverty.

Supplemental Security Income Program Recommendations

The supplemental security income (SSI) program was created in 1972 to provide policymakers with a more effective instrument for reducing the extremely high incidence of poverty prevailing among the elderly. Even though social security benefits have been increased substantially, especially during the late 1960's and early 1970's, SSI benefits have been needed by many elderly persons who either lack social security coverage or receive very low social security benefits.

However, even receipt of both social security and SSI benefits still fails to guarantee a minimum income above the poverty threshold. For aged families with SSI and social security income alone, 50 percent were living below the official poverty line in 1977; for single persons in these circumstances, 60 percent were in poverty. To address this situation, the associations recommend several improvements in the SSI program.

With respect to payment levels, the Federal portion of the SSI payment should be increased to at least 125 percent of the poverty level as defined by the Census Bureau. State supplements to the Federal payment must also be encouraged so that recipients can be compensated for regional cost-of-living variations.

Because the participation of the elderly poor in the food stamp program has been extremely low, food stamps should be cashed out for SSI recipients. Until this is done, however, the Congress should refrain from further reducing food stamp benefits for older recipients and should restore the semiannual adjustment in benefits that was eliminated by the 1980 Food Stamp Amendments.

SSI's partial disregard of unearned income (usually social security benefits) should be made on a progressive rate basis (at least 20 percent disregard) rather than on a flat dollar ($20 per month) basis. Due to automatic cost-of-living increases in social security benefits, many SSI recipients have either lost their SSI eligibility or experienced a net reduction in total income from SSI and social security combined.

In order to encourage employment, SSI's $65 per month earned income disregard should be raised substantially and thereafter, automatically indexed to wages. Also, public service job opportunities and job training and referral mechanisms should be created specifically for SSI recipients.

The associations also recommend elimination of the one-third SSI payment reduction imposed upon individuals who live in the house of another. This arbitrary reduction discourages the elderly poor from living with relatives and often results in their premature institutionalization.

Finally, SSI's current assets limitations of $1,500 for individuals and $2,250 for couples should be substantially increased and eventually eliminated. An estimated 12 percent of elderly families with incomes below SSI payment standards were denied benefits because of the assets test.

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ITEM 2. LEGISLATIVE REPORT OF THE NATIONAL RETIRED TEACHERS ASSOCIATION/AMERICAN ASSOCIATION OF RETIRED PERSONS, DATED APRIL 16, 1981, SUBMITTED BY ROBERT J. SELL [1]

ISSUE: H.R. 3207 SOCIAL SECURITY FINANCING LEGISLATION

Representative J. J. Pickle (D-Texas), chairman of the House Ways and Means Social Security Subcommittee, introduced on April 9, major social security legislation (H.R. 3207). NRTA-AARP oppose two main provisions of H.R. 3207: (1) General revenue financing for medicare, and (2) raising the retirement age from 65 to 68.

We request that you express this opposition to your U.S. Representative since he serves on the Ways and Means Committee which will be reviewing this bill.

GENERAL REVENUE FINANCING FOR MEDICARE

H.R. 3207 proposes to transfer half of the cost of the medicare hospital insurance (HI) program to general revenues beginning in 1982. The purpose of this transfer is to shift a portion of HI payroll tax revenue to the financially ailing old-age, survivors, and disability insurance (OASDI) trust funds.

NRTA-AARP position

We oppose this proposal because it would represent a permanent and large infusion of general revenues into social security. In the first year alone, this proposal would shift a large ($14 to $15 billion) cost directly onto the Federal budget and this amount would grow rapidly as hospital costs continue to outpace the general inflation rate. This would inevitably set the stage for a significant cut in medicare benefits or an eventual means-testing of the program. In addition, this proposal could: (1) Disrupt the effort to bring the Federal budget into balance, and (2) prevent the kind of thorough long-term reforms needed in social security.

If general revenues must be used to stabilize the social security system, they should be: (1) Brought directly into the OASDI program which is where the financial difficulties lie, and (2) used only a temporary and limited basis strictly for the purpose of financially stabilizing the system over the next 5-year period. Once the system is stabilized, the general revenues would automatically phase out. This proposal would not disrupt efforts to balance the budget and would solve the short-term social security problem in a manner that does not preclude long-term reform.

RAISING THE RETIREMENT AGE TO 68

H.R. 3207 proposes to increase the age (from 65 to 68) at which full social security benefits are available. This later retirement age would be phased in over a 10-year period beginning in 1990. Over this same 10-year period, early retirement benefits available at age 62 would be reduced from the current level of 80 percent of the full benefit amount to 64 percent of the full benefit.

NRTA-AARP position

Age 65 should be maintained as the full benefit retirement age. Rather than raise the retirement age, an aggressive social security work incentive strategy designed to encourage older persons to delay their retirement dates ought to be adopted immediately. This work strategy should include:

(1) Elimination of the earnings limit for persons age 65 and over (this limit currently penalizes older workers when they earn over $5,500 per year).

(2) Provision of a 9 percent delayed retirement credit to encourage persons to delay retirement past age 65 (effective in 1982, a small 3 percent delayed retirement credit is provided to persons age 65 plus for every year they elect not to file for social security benefits); and

(3) Increase the disincentive to retire early by reducing early retirement benefits at age 62 from 80 percent of the full benefit amount to 70 percent of the full benefit amount.

Rationale.—Proponents of the age 68 plan argue that life expectancy rates are increasing and older persons will be able to work longer. The incidence of chronic illness, however, has been increasing and this can interfere with many older workers' ability to lengthen their worklives. The work strategy the associations are advocating would provide strong incentives to older persons who are physically able and desire to keep working while allowing those who cannot work to retire when they need to with reasonably adequate benefits. Another serious drawback to the age 68 proposal is that it represents a very large and visible benefit cut for younger workers who must support the system with their payroll taxes.

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[1] See statement, page 51.

NRTA-AARP long-term reform proposal.—We recommend long-term social security reform that builds upon the system's pension or earnings replacement function while, at the same time, shifts social security's minimum income support and social adequacy functions off of the payroll tax and onto separate programs specifically designed to perform those functions and financed from general revenues. The portion of social security which remains financed from payroll taxes ought to award benefits solely to workers, and those benefits should be closely tied to a worker's prior earnings.

ACTION

Please contact your U.S. Representative in opposition to the age 68 proposal and the general revenue for medicare proposal.

ITEM 3. INFORMATION MEMORANDUM OF THE NATIONAL RETIRED TEACHERS ASSOCIATION/AMERICAN ASSOCIATION OF RETIRED PERSONS, DATED JUNE 5, 1981, SUBMITTED BY ROBERT J. SELL [1]

Fresh from victory in Congress on the budget issue, the Reagan administration on May 12 launched a new set of proposals—this time aimed at social security. The latest package, which attempts to resolve social security's short- and long-term financing problems, would make major reductions in benefits affecting both current and future social security recipients.

This memorandum will provide you with an analysis of the administration's major proposals and NRTA-AARP positions on and alternatives to them. It is intended to serve as a background paper for communications on legislation which will emerge from these and related proposals. Since support is building for a severe cutback in social security cost-of-living adjustments as the "compromise" alternative to the budget cuts recommended by the administration, NRTA-AARP will be focusing a good part of its efforts on preserving the current cost-of-living protection. We urge you to stress the COLA issue in communicating your opinions on the proposed package to the President, your two U.S. Senators, and your U.S. Representative. The legislative staff will be working with Congress in the coming months to insure that older persons are treated fairly by all proposals under consideration.

OVERVIEW

The main elements of the administration's package would:

—Sharply reduce early retirement benefits beginning in 1982.
—Phase out the social security earnings limit.
—Trim payments for all future retirees.
—Delay payment of the 1982 cost-of-living increase; and
—Reduce disability protection, particularly for older workers.

The administration's package would cut social security benefits by $9.1 billion in 1982 and by over $81 billion cumulatively from 1982-86. Over the next 75-year period, total social security payout would be reduced by nearly 25 percent as a result of the proposed reforms.

NRTA-AARP REACTION

The administration's package of social security cutbacks is unacceptable to the associations for two reasons—it would cut benefits excessively, and it would cut them far too abruptly. Older persons—both current retirees and those approaching retirement—are economically vulnerable, especially in the current inflationary environment. They can least afford substantial, precipitous cuts in a basic income program like social security.

The associations believe that a more reasonable response to social security's short-term problems would be to stabilize the system with temporary infusions of general revenue while phasing in structural changes which would make the system more equitable, work-promoting, and solvent.

For the long term, the associations are pleased that the administration has adopted a work promotion concept for social security reform by recommending abolition of the earnings limit and by maintaining the full benefit retirement age at 65 rather than raising it to 68. However, we must object to the drastic reductions in early retirement benefits and disability protection. If these measures were enacted, millions of older workers approaching age 62 and planning on retirement would find

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[1] See statement, page 51.

their own benefits and their spouses' benefits permanently slashed by over one-third.

We must also object to the administration's proposed reduction of benefits to all future retirees through altering the basic benefit formula. This measure would try to address social security's long-term deficit but leaves the current benefit and financing structure intact, whereas we believe that a major overhaul of the system is needed.

Finally, we are opposed to the administration's proposal for a one-time delay in payment of the 1982 cost-of-living adjustment. Even with full COLA's, the elderly poverty rate jumped in 1979 by over a full percentage point—the highest increase ever. The rate for the nonelderly, in contrast, remained static.

Specific Proposals

I. EARLY RETIREMENT BENEFITS CUT

Proposal: A permanent, sharp reduction in early retirement benefits beginning next year

Under current law, persons retiring at age 62 receive 80 percent of the benefit amount they would have received if they waited until age 65 to retire. The administration proposes to pay only 55 percent of the age-65 benefit amount to early retirees who reach age 62 on or after January 1, 1982. Benefits provided to spouses and survivors of early retirees would also be reduced since they will be equal to one-half of a reduced benefit amount. Benefits paid to the children of early retirees would be eliminated entirely.

Impact.—Total social security benefits would be cut by $19.5 billion over the next 5 years and over the next 75 years, total social security payout would be reduced by 6 percent.

	Present law	Proposal
Average earner, age 62 at retirement in 1982	$372.80	$246.80
Spouse's benefit	186.40	123.40

NRTA-AARP position.—The associations oppose such a large and precipitous cut in early retirement benefits. Millions of older workers approaching age 62 and planning on retirement would find their own benefits and their spouses' benefits slashed by over one-third. Because this benefit reduction would be permanent and carried throughout older persons' retirement lives, it is likely to create a new class of impoverished older persons.

Such a large early retirement penalty would be particularly harsh for older workers who lose their jobs and have no employment prospects or who are unable to keep working due to poor health. Surveys indicate that more than half of workers who involuntarily retire cite poor health as the reason for retirement and these retirees tend to be a low-income group.

Since maintaining age 65 as the full benefit retirement age is an important objective for the associations, we would be willing to support some reduction in early retirement benefit levels (from the current 80 to 70 percent of the full benefit amount) in order to encourage later retirement and help deal with the system's long- and short-term solvency. However, such a reduction would have to be phased in very gradually over a period of years and accompanied by other work incentives (see earnings limit section for further discussion). In addition, to insure that chronically ill and involuntarily unemployed older workers are not unduly harmed by such a change, the DI and SSI programs must be made more accessible to those older workers.

II. EARNINGS LIMIT PHASED OUT

Proposal: Phase out of the earnings limit for persons age 65+

The current earnings limit reduces social security benefits for persons 65+ by $1 for every $2 of annual earnings in excess of $5,500 (the limit will rise automatically to $6,000 in 1982). The administration's proposal would phase out this limit over a 3-year period, moving the ceiling to $10,000 in 1983, $15,000 in 1984, $20,000 in 1985, and eliminating it thereafter.

Impact.—The proposal is expected to increase social security benefits by $6.5 billion over the next 5-year period. However, SSA estimates that some 79 percent of this cost might be offset by increased payroll and income tax revenues resulting

from additional people deciding to work after age 65. Persons who have earnings above the limit will benefit from this provision as well as the many thousands of low-income older workers who currently keep their earnings below the limit and would be allowed to increase them.

NRTA-AARP position.—The associations strongly support the elimination of the earnings limit. It has acted as the major work disincentive for the elderly and its elimination must be a key element of any attempt to stabilize social security financing through a work-incentive strategy.

Some analysts argue that only higher income persons would reap the benefits of eliminating the earnings limit. These analyses ignore the fact that over half of workers age 65+ hold their earnings below the earnings limit and they would also benefit from its repeal. Their gain would be in the form of the higher wages they could earn. Surveys show that persons with low retirement incomes want to work more than those with higher incomes.

Our associations would add another element to the administration's work promotion strategy—an increase in the delayed retirement credit. Beginning in 1982, current law provides a 3 percent credit to older workers for every year they delay their retirement (and collection of social security benefits) past age 65. In order to act as a stronger incentive for older workers to remain fully employed and off the social security rolls, we believe that the credit should be raised to 10 percent per year.

III. REDUCED FUTURE BENEFITS

Proposal: Reduce basic benefits awarded to all future retirees

Current law provides a worker who has average earnings and who retires at age 65 with a benefit equal to approximately 41 percent of his/her preretirement earnings. Beginning January 1, 1982, the administration is proposing to reduce gradually this "replacement ratio" from 41 to 38 percent of prior earnings. This will be achieved by altering the formula used to calculate the basic benefits of all persons retiring in and after 1982.

Impact.—Although over the next 5-year period total social security benefits would be cut relatively slightly (by $4.2 billion), over the long term, this provision would reduce total social security payout by a substantial 9 percent.

	Percent cut	Present law	Proposal
Benefits payable at age 65 in 1987:			
Low earner	6	$477.10	$447.40
Average earner	4	719.00	691.00
Maximum earner	9	942.80	860.30

NRTA-AARP position.—Our associations oppose this method of dealing with social security's long-term deficit. The administration proposes to perpetuate the current social security benefit structure and equally reduce everyone's benefits. Our associations have long advocated a complete restructuring of social security over the long term. We want to see it comprehensively reformed and reordered so that the multiplicity of functions it presently performs—using a single benefit and a single financing structure—would be sorted out among separate structures, each one specifically designed to perform each function and financed appropriately.

The major element of our recommended restructuring would be to first build upon and improve the system's pension structure. We believe that the portion of social security that is financed from the payroll or wage tax ought to award higher benefits to workers who have contributed to the system and just as important, those benefits should be directly related to the worker's prior earnings. In this manner, workers and retirees of the future will feel as though they will get what they paid for. The other elements of social security designed to guarantee minimum income support to workers and their dependents should be shifted off of the payroll tax and onto a part of social security that is general revenue financed and specifically designed to perform those functions. The ultimate goal of this benefit restructuring combined with our work-incentive proposal is to improve the system's long-range financial balance in a manner that will more visibly make the system fair and equitable so that both workers and retirees will be willing to continue to support it.

IV. COLA DELAYED

Proposal: A one-time delay in payment of 1982 cost-of-living adjustment

In 1982, the administration proposes to shift payment of the cost-of-living adjustment (COLA) from July to October, resulting in a one-time reduction in cost-of-living protection. This proposal is quite different from other proposals, such as Senator Hollings' proposal, which would result in recurring benefit losses by delaying payment of the COLA in every year, not in just one year.

Impact.—This proposal would reduce social security benefits by $3.3 billion in 1982, and by $6.3 billion over the next 5-year period. The average retiree with a monthly benefit of $375 is likely to lose about $100 in benefits in 1982 (assuming 9 percent COLA in 1982).

NRTA-AARP position.—The associations oppose any reduction in social security's cost-of-living protection since it is so vital to current retirees. We recognize that the administration's proposal is a temporary, one-time-only reduction, and therefore is far less detrimental to retirees' interests than other proposals that would make permanent cuts in cost-of-living protection. Nevertheless, we must oppose it.

Despite full COLA's provided by social security, the elderly have suffered large real income losses as a result of sustained, high-rate inflation. These losses have occurred with respect to those private income sources—private pensions, savings, and other dollar-denominated assets—which represent over one-third of the elderly's total income and which are not protected against inflation. We believe it is this situation which prompted the largest rise in the elderly poverty rate—from 13.9 percent in 1978, to 15.1 percent in 1979—while poverty rates for the nonelderly remained static.

V. DISABILITY PROTECTION SUBSTANTIALLY REDUCED

Proposals: Restrictions placed on disability insurance (DI) protection, particularly affecting older workers

The administration proposes to make it more difficult for all workers—and particularly older workers—to qualify for DI benefits. The proposal includes:

Use of "medical" factors only in establishing entitlement to DI. Under current law, workers (especially older workers) can qualify for DI based on a combination of medical and nonmedical factors (such as age, education, reemployment prospects, and work experience). More than one-third of DI beneficiaries age 60–65 are determined to be disabled based on nonmedical factors.

Increase the work requirement needed to be insured for disability. Current law requires a worker to have been employed in 5 out of the preceding 10 years in order to qualify for DI. The administration proposes a work requirement of 7½ years out of the previous 10. This provision would deny benefits to older workers who become progressively disabled and thus have long spells of illness which would prohibit their being able to meet this increased work requirement. Women who leave the labor force for child rearing or other family responsibilities could also lose disability protection under this provision.

Requirement that a disability be expected to last at least 2 years (rather than 1 year as under current law).

Lengthening of the waiting period for receipt of DI benefits from 5 to 6 months.

Impact.—The combined impact of these four DI proposals would reduce disability payments by $21.9 billion over the next 5-year period. These proposals will deny DI benefits to two groups of older workers—those with progressively degenerative diseases, and those who are only partially disabled but, because of their age, lack of education, or up-to-date skills, cannot be expected to be reemployed.

NRTA-AARP position.—The associations oppose these cutbacks in the DI program particularly since they are being proposed along with drastic cuts in early retirement benefits. The combined impact of the DI and early retirement cuts would leave thousands of disabled older workers with no option but to take early retirement and live on extremely low benefit levels for the duration of their later years. If age-62 benefits are to be reduced in any manner as part of a work promotion strategy, then the DI program must be made *more*, not less, accessible to older workers.

VI. MISCELLANEOUS PROVISIONS

A. Raise benefit computation point from age 62 to 65

This change has the effect of lengthening by 3 years the period over which earnings must be averaged for purposes of calculating benefits. When computing

their benefits, older persons who elect early retirement will be required to average in zero earnings for every year they retire before age 65. This proposal would have the effect of reducing benefit levels for all future retirees and particularly for early retirees. Social security benefits would be cut by $1.3 billion over the next 5-year period and by an overall 3 percent over the next 75-year period.

NRTA-AARP oppose this provision, because, in connection with the proposed stiffening of the early retirement penalty, it would be overly harsh on early retirees.

B. Impose lower family maximum

Current law limits total family retirement benefits including those benefits received by spouses, children, or other dependents to as much as 188 percent of a worker's prior earnings. The administration proposes to lower that family maximum cap to 150 percent of a worker's primary benefit amount or 85 percent of his prior average earnings. This proposal would reduce social security benefits by $2.9 billion over the next 5-year period.

NRTA-AARP would oppose this provision because it would discriminate against certain social security recipients, especially those who have dependents. Although the administration argues that such a reform is needed to restore equity in the social security benefit structure, we believe inequities are best addressed through comprehensive, not piecemeal, reform of the benefit structure that does not single out particular groups of beneficiaries.

C. Reduce Windfall Benefits

Under current law, a person who spends the majority of his working career under noncovered employment (Federal, State, or local) can work under social security for a short period of time and receive disproportionately high benefits. The administration proposes to reduce that windfall and give such retirees a social security benefit that reflects their payroll tax contribution to social security. This proposal would reduce social security benefits by $600 million over the next 5-year period.

NRTA-AARP believe it is unfair to single out this group of retirees. Windfall benefits ought to be reduced through the comprehensive social security reforms we have outlined earlier. These reforms would move toward treating all social security recipients in a more fair and equitable manner.

ITEM 4. EXCERPT FROM "MODERN MATURITY," AUGUST-SEPTEMBER 1981, SUBMITTED BY ROBERT J. SELL[1]

Here's What We Believe Is Best for Social Security Reform

(By Cyril F. Brickfield, Executive Director of AARP)

President Reagan's disheartening proposals to reshape the social security program illustrate just how easy it is to go astray when it comes to restructuring this sensitive and crucial area of policy.

Amid protests lodged by your association, lawmakers of both parties and millions of citizens, the administration backed off from its ill-considered plan. Fortunately, it indicated an immediate willingness to compromise with those in Congress who are working to put the financially troubled system on sound footing.

As a result, there is no chance that the administration's scheme will be adopted in its original form, and this is all to the good.

But in putting together new proposals to solve social security's pressing problems, Congress shouldn't lose sight of some of the more positive aspects included in the Reagan plan. For example, we think the White House was on the right track in adopting a work-incentive strategy for long-term social security reform.

Thus, while condemning most elements of the plan, we praised the administration for keeping 65 as the age for full retirement benefits and for recommending a phaseout of the earnings limit (which restricts the earnings of retirees between 65 and 72).

Time and again, AARP has urged abolition of the earnings limit on grounds that it is a major work disincentive for the elderly. Clearly elimination of the limit must be a key ingredient of any attempt to stabilize social security financing through a work promotion strategy.

Constructive as this approach may have been, the administration didn't carry it far enough. We would add another element to the work-incentive concept—an increase in the delayed retirement credit.

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[1] See statement, page 51.

Beginning next year, current law provides a 3-percent credit to older workers for every year they delay their retirement (and collection of social security benefits) past age 65. In order to provide a stronger incentive for older workers to remain fully employed, we have argued that the credit should be raised to 10 percent a year.

But rather than offer such incentives, the administration decided to rely primarily on punitive steps to keep older workers on the job, and therefore off the social security rolls. This emphasis on punishment led the White House to make one of its most serious blunders: Proposing that early retirement benefits for those approaching age 62 be slashed more than 30 percent.

While some reduction in early retirement benefits may be justified, the administration went too far, too fast. If such benefits must be cut, they should drop only slightly. Moreover, the reductions should be phased in gradually, in order to avoid disrupting the plans of persons nearing retirement and to give workers time to adjust.

The administration's proposed reductions in disability protection would have made matters worse. The plan would have denied benefits to those with chronic ailments who become slowly disabled. Those who are partially disabled because of their age, or lack of education, or up-to-date job skills also would have been turned down.

We think this is the wrong way to go. If the Government is to encourage people to work longer (as we think it should), then it must insure that the chronically ill and involuntarily unemployed are not unduly harmed by such a change in policy.

Your association believes that if work incentives were made attractive enough, a sizable number of older employees would respond—enough to generate tax revenues that would materially reduce social security's long-term deficit. We feel the administration erred in overlooking the contribution that could be made by such incentives. We are working to make sure Congress doesn't make the same mistake.

Appendix 2

STATEMENTS SUBMITTED BY THE HEARING AUDIENCE

During the course of the hearing, a form was made available by the committee to those attending who wished to make suggestions and recommendations but were unable to testify because of time limitations. The form read as follows:

Dear Senator Percy: If there had been time for everyone to speak at the hearing on "The Social Security System," in Evanston, Ill., on August 10, 1981, I would have said:

The following replies were received:

OLLIE BAKER, CHAIRMAN, CRIME COMMITTEE, CHICAGO, ILL.

The social security system which is vital to us all is being threatened by the proposed Reagan cuts. These cuts will not save the system as he claims but will weaken it.

The cuts which Reagan has proposed will affect every recipient, current and future. While there are problems within the social security system, cutbacks which permanently reduce benefits are not the answer. Social security is a contract which has been made between the people who are now working and contributing to it and those who are now receiving its benefits. When it was originally set up, the formula used would assure every person contributing would receive the minimum benefit payment. To do away with that would threaten those plans as well as social security itself. The American people have shown they are willing to pay for the social security system and it is up to Reagan and Congress to resolve the immediate problems without reducing benefits. The system is not a welfare program, although it is successful in keeping 14 to 15 million people out of poverty. The people who receive the benefits deserve them and the people who are paying into the system have the right to the protection promised them. Reagan or Congress should not break that contract.

The social security system has temporary problems because of the economic situation now affecting us all. However, if the system were allowed to function independently, it would not be in deficit. Some of the current problems stems from the probability that social security, now a part of the unified budget, might have been used to cover up deficits elsewhere in the budget. Metro Seniors feel that the social security system should be separated from the general purpose budget and allowed to exist independently.

Reagan has not considered other alternatives to cutbacks in social security. His only concern is to balance his budget without taking away from defense spending. There are other solutions to the cuts and Metro Seniors demand that these be looked at. The cash-flow problems could be alleviated by shifting money from the hospital insurance trust fund (part of medicare) to social security and making up the difference to medicare from general revenue. General revenues could be added directly to the cash programs or borrowed to be paid back later. Payroll taxes could be raised and the money could be returned to the workers through the income tax program. There are many other solutions which would not cut our benefits. If Reagan can find a way to give tax breaks to the wealthy, he can find a way to solve the present cash-flow problem without taking away our benefits.

Senator Percy, we ask that you vote against the proposed cuts to social security and work to convince other Members of Congress to do the same. The budget cuts which have already gone through will cause such hardships for those of us on fixed incomes that we cannot believe you would even consider cutting our only source of income. The social security system was set up so that senior citizens, disabled people, widows, and orphans would be able to survive with the barest of necessities. To think of taking that away is atrocious. Save our security, and the security of future generations.

PAUL W. GILLETT, EVANSTON, ILL.

I am a recent new recipient to receiving social security benefits and I am both pleased and thankful for the monthly checks which are being sent to me.

However, since I have contributed to the social security system since its inception, I resent the 3 million recipients who are receiving the minimum of $122. Those who need the money should receive it. Buy why cannot the following be eliminated:

(1) Those who receive Federal pensions.

(2) Wealthy persons who work a few months in order to qualify for the minimum.

(3) Aliens who have returned overseas after working a short time and now qualify for social security checks.

MARY GRABER, R.N., M.S.N., OAK PARK, ILL.

I am a delegate to the national White House Conference on Aging and the administrator of an adult day care center and thus the executive of a small business that provides services to senior citizens. Our perspective is this:

(1) As a small business with very few employees we cannot find a retirement/pension program that is affordable and beneficial to the employee.

(2) Costs of workmen's compensation, unemployment insurance, social security, and the mandatory employee contributions keep our overhead at nearly 175 percent of costs of service.

(3) Providing a necessary service to senior citizens, we are aware that 96 percent of those we service are at or below poverty level, mostly because they exclusively rely upon social security and SSI.

(4) The majority of those impaired seniors using our services are women who never contributed to the system.

(5) We are 80 percent funded by title XX which does not cover all costs and prohibits us from retrieving the difference between cost and charge from the service consumer.

(6) Present restrictions on funding and adult day care services encourages government spending upon institutionalization—not keeping people in homes and utilizing families for support.

MARGARET D. GUSTAFSON, EVANSTON, ILL.

Income tax forms could carry a specific instruction for retirees whose adjusted gross is over $25,000 to add a 1 percent tax to be paid into the OASI fund. (No casework necessary—nor any change in the requirements for receiving earned benefits.) Do not merge civil service (United States) and OASI. Adequate pension plans in private sector are the real problem. They should be fairly uniform.

LEONARD FUCHS, CHICAGO, ILL., MEMBER, NATIONAL BOARD OF THE GRAY PANTHERS

Once upon a time, the general attitude in this country was that after a person had worked a lifetime and contributed to the national welfare, in old age, he or she was entitled to a retirement that was secure and comfortable and dignified. Now, despite campaign promises from Ronald Reagan that social security would not be reduced or changed adversely, it appears that the previously expressed veneration of the old is no longer valid and a determined effort is being made to force cuts in social security benefits through the Congress.

Why is this being done? We are told that the system will soon go broke and cuts are necessary to save it. It reminds one of the Viet Nam rationale, that in order to save towns, it was necessary to destroy them. All the talk about the possible demise of the system and the plans for cuts are most disconcerting to people, old and young. The old fear cuts as threats to their future security, and the young fear that when it comes time for them to enjoy their "golden years," there will be no social security benefits for them.

Old people, who have many fears about their remaining years; health, the loss of loved ones, etc., don't need this added threat of financial deprivation, and it is all so unnecessary.

The alleged shortage in the social security funds results from the many other programs that have been grafted on to it. These other programs, good and needed as they are, should be continued, but funded out of general taxes rather than out of the social security fund. And if really necessary, any shortfall in the social security fund, should also come from general taxes.

The argument that is put forth by the Reagan camp against such funding is that it would change the thrust of social security. That it would make social security a welfare program instead of an insurance plan. But that is a laugh.

Federal employees have their own pension system and are not covered by social security. They pay into it and the Government contributes as well. But when a Federal employee starts collecting his or her pension the employee's contribution is drawn in 3 years or less. Presumably the Government's contribution will also be depleted in the next 3 years or less. After that the pension is still paid until the pensioner dies. And where do the funds come from? Of course, from general taxes. We don't hear about Federal pensioners then being on welfare, or their pension fund going broke. Why is it different for those on social security? And Federal employees can retire on full benefits at age 55 after 30 years of work. The rest of us have to wait until we reach age 65 if we want full benefits regardless of how long we have contributed to the system. One wonders why Federal employees are better treated than the rest of us. One also wonders why Reagan and his advisers feel that the only way to save the economy and feed the very hungry military is by taking away from the poor and the old.

Why is it that during all the years that social security has been on the books, the fund has not earned a single dollar in interest. What kind of an insurance plan is that? It is time that the Congress says no to the proposed cuts.

When the first proposals to cut benefits were made, it was reassuring that the Senate voted 96 to nothing to oppose such plans. Has anything changed to cause the reversal we seem to be promised? How can Senators, in good conscience, now vote for the very cuts that they disavowed just a few months ago?

Resolve with us—no social security cuts—and then vote down any such proposals that come before the Senate.

CHARLES JOLICOEUR, CHICAGO, ILL.

I felt that we should keep our word and contract with those who are now getting that small social security amount of $122 per month.

Maybe those double-dippers might have enough conscience and not apply as they probably have a good pension. This would eliminate this problem for the future and save social security from a lot of waste. Many things have been added to social security that should be eliminated.

GLENN C. LACE, EVANSTON, ILL.

Further cost-of-living adjustments should be deferred until the fund is on a sound financial basis.

DOROTHY M. PARSHALL, NORTHFIELD, ILL.

Before the administration rushes us into sweeping changes in the social security system in order to "save" it, we had better look at Government statistics which are seldom cited, and which can show us some of the long-run consequences of these proposals for American lives.

President Reagan gives increased life expectancy as a justification for raising the retirement age to 68. While life expectancy has indeed risen, the median age at death for white males is 73 years and for black and other males, 68 years. This is a median average, which means that half the white males would not live as long as 5 years after becoming eligible for benefits, and half of nonwhite males would die before receiving any benefits at all, after contributing for a lifetime of work.

The proposal to penalize early retirement by greatly reducing benefits, or by raising the age to 65, requires a look at some other statistics. The President appears to picture the "average" early retiree as someone from his own class, who, not needing the extra dollars in benefits for waiting until age 65, decides to give up the "rat race" and enjoy a few years of leisure. Yet, 50 percent of all retirees have no private pension plans, having moved from job to job with the ups and downs of the economy. According to the latest figures available, white workers in the age bracket 60–64 years have a median annual income of $14,600, and nonwhite workers $10,500. This is for all workers. Women on hourly wages average less than $9,000 a year. Fifty percent of the work force earn less.

While undoubtedly business executives, persons in highly skilled occupations, and some single persons who may never have had to support a family, can, if they have worked only for one or two employers during their many years, afford to retire at 62, and may prefer to, the majority of workers cannot afford to do this, even if they should wish to. Many apply for early retirement benefits because they are unemployed, and cannot locate employers who prefer 60-year-old job applicants to young-

er ones. Business or professional workers of that age, adrift when their jobs no longer exist, are often turned away as "over-qualified" for positions that are open.

Many early retirees, individuals with health problems, unable to continue at the pace required, decide that they must take early retirement before it is too late. Yet for all these people, the cost of medical insurance without an employer contribution is very great, and prohibitive for those on low or modest incomes for any length of time. A serious or prolonged illness of husband or wife can quickly wipe out savings. Should the option of retirement at 62 be removed, many a couple will not make it to age 65 without medicaid or welfare. After a lifetime of hard work and independence, this can be a shameful conclusion.

The administration acts like a compny that goes into bankruptcy court, asking to be relieved of its obligation to pay its debts, while, in a hidden account, it has earmarked vast sums for projects never mentioned in the bankruptcy proceedings—in this case, more and deadlier weapons technology, to back up a one-track, single-minded foreign policy of confrontation.

Since so much stress is often laid on requiring the social security trust fund to operate at all times without assistance from general revenues, it is well for us to remember that all the Government's money, including social security and general revenue funds, comes out of our paychecks, and that we have a say as to what it is spent for. Our priorities are important. The so-called Reagan "landslide" supposedly proves that Americans want their money spent on high-tech weapons first, and only after that on their own health, security and well-being. Polls are used to prove that this is so. Instead of asking people, "Are you in favor of greater defense spending?", the polls ought to be asking, "Are you in favor of raising the retirement age and cutting benefits, in order to support increased defense spending?" They might get a different answer.

There are statistics we need to question, as well as others we need to know. For example, demographic projections are notoriously unreliable, as any school district knows, and there is no reason to believe that this administration's long-term projections are any better than their predecessors. The select "worst case" figures to back up their game plan, which is to frighten the "baby boom" generation into believing that there will be no retirement funds for them when their time comes, unless we reduce the security of today's and tomorrow's retirees.

We should remember that today's senior citizens paid with their State and local taxes for the schools, colleges and libraries in which the generation now raising families were educated. Would this generation prefer to have their aging parents largely supported by the "private sector" (themselves), rather than assisted in remaining financially independent, by way of social security and medicare? Only 22 years ago, in 1959, 38 percent of the aged in this country lived in poverty. By 1974, as a consequence of high levels of employment and the liberalization of social security benefits, to bring replacement income up to tolerable levels, the percentage of aged poor was reduced to 16 percent, although many still live close to the poverty level.

We do not know enough about long-term trends to make reckless, sweeping reductions at this time. The President should desist from his tactic of pushing for immediate action without giving people time to think these matters through.

First, there is some indication that the birthrate is rising again. If this proves to be the case, the number of young workers, as well as the continued increase of women employed, will mean a larger force 20 years from now.

Second, without any change in the law, Congress could restore to the trust fund all the moneys it has taken out of it over the years for other purposes. How much would this amount to, if paid in today's dollars, compounded for the lost years of accumulation?

Third, congressional committees and economists from business and labor should do some creative thinking about ways to provide more workers with dependable, portable, taxable private pensions.

Fourth, tax incentives rather than punitive cuts in benefits should be used to encourage older workers who are able-bodied and employed to continue working. Perhaps tax incentives could also be used to persuade more employers to hire older workers who need jobs.

Almost all of us know too little about the effects on our economy in this century of the various wars we have engaged in. Historians and economists may have much to tell us, but the press has not provided the country with this kind of background. At this time, it is crucial for us to know the actual effects of current military expenditures on inflation, and vice versa. Such matters need to be widely understood and discussed before we embark on a tremendous escalation of investment in weapons and a corresponding drastic reversal in social policies affecting older Americans.

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AUGUST J. RUF, CHICAGO, ILL.

Something has to give. I propose that they move the 62-year-old retirement on social security to 65 and the 65 retirement to 70 years old. This would be a big help on the drain of social security moneys and in a long run help the elderly.

It is a reality that most retirees after a few months are looking for work and something to keep them busy. Many even wish they had not retired. Unless they are ill or severely handicapped they should work until 70. I must say I am scratching to make my pension reach.

PEG RUSSELL, RIVER WOODS, ILL.

I feel we should cut out all benefits to survivors if widows (are) below age 60 or so. Children should also not be eligible. Indexing should be limited to the lowest rate associated with inflation. I am a member of the baby boom generation. I don't want to pay social security tax with no guarantee that I will be able to draw from it in the future.

HELEN SCHMIDT, EVANSTON, ILL.

Something that would have made me a "persona non grata." I believe anybody who now pays an income tax should have to report and include in his taxable income the total amount of his social security, or, after a person has received in social security benefits as much as he has paid in from that point on, if his income is high enough to justify paying income tax, the amount of his social security benefits should be included in taxable income.

Many old people say their incomes don't increase from year to year, yet some of these people have received increases in their pensions and other income, including social security. I know my social security has increased from $49.50 to $231, for which I am very thankful.

LORETTA SIMMONS, EVANSTON, ILL., VICE PRESIDENT, POLISH-AMERICAN SENIOR CITIZENS COUNCIL OF CHICAGO, AND ADVISER, MAYOR'S OFFICE OF SENIOR CITIZENS, CHICAGO

The slashes in programs to meet the peoples' needs are enormous. They include many changes in existing laws and no one is fully aware of what they are. Most of these gains were won by tough battles against the big corporations.

One of the most disturbing aspects of the Reagan administration's budget cuts and tax proposals is the devastating effect they will have on the integrity of the American family. It is terribly ironic that the Republican platform, and President Reagan himself, pledged to strengthen the family and the exact opposite is taking place.

Mr. Reagan tells us that the budget and tax cuts are needed to fight inflation, to end waste in government and ease the tax burden on all taxpayers. But if these proposals were meant to fight military waste and still produce a $45 billion deficit. And just yesterday they announced that they're going ahead with the neutron bomb, which is the weapon that kills only people and leaves everything else intact. This is barbaric. This should tell all American people how much our President thinks we're worth.

Yesterday, I read in the Tribune that in a few years our defense budget will be $1.6 trillion, $4 a day for every man, woman, and child. We appeal to Senator Percy to help stop this kind of lunacy. Restore peace and the cuts and cut military spending.

EVA L. STURROCK, SKOKIE, ILL.

There are a great many alternatives to the solution:

(1) Stop giving disability payments to every person with a hangnail or a bad back.

(2) Stop student loans. I paid for my children's education and worked to accomplish this.

(3) Terminate support for children whose fathers have paid only a few years into social security. Give them what was paid in, but they are not entitled to support until they are 21 years old.

If we are going to "tighten our belts," let's all get on the bandwagon; citizens, legislators, and make it an effort that includes everyone. Make everyone pay social security. We are all citizens of one government.

WILLIAM R. TUCKER, JR., EVANSTON, ILL.

I believe a concerted effort should be made to make the public aware of the original purpose of social security, as you indicated during the course of the hearings. Also, efforts should be made to uneducate the American public that the government furnish funds to support them. In other words, people should not expect something for nothing.

Also, I believe that social security proceeds received by retirees should be taxed for income tax purposes in the same fashion as pension payments are. That is to say, after the recipient has received the equivalent of his contribution and perhaps the employers contribution.

HYMAN W. WALLACE, SKOKIE, ILL.

I always felt that it was unfair to accept money only from salaries for social security benefits and not from other income, such as rents, interest, and dividends, so that regarding how willing a person may be to pay into the fund to the best of his ability, he is limited by his salary and then not eligible for the highest payout. Also, I feel that if a person's salary is not high enough to pay the highest amount of deduction acceptable, if he is frugal enough and prudent enough to save money from his income, he should be allowed to pay into the fund the difference between the amount paid in, to the highest amount acceptable.

Also, even at this late date if it would be allowed for persons who fortunately have the means to pay into the fund the amounts for the years either missed or underpaid because of lower income, plus interest it would serve two purposes. It would guarantee to the payer (recipient) the largest or equal to the largest monthly checks that anyone would get on retirement and also large funds into the system to build up the system's assets. Also, if people already on the collecting end who are not getting the maximum checks possible who have savings and would prefer to pay in the amount missed to bring them up to maximum qualifications instead of investing in more insecure investments they should be allowed to do so and also help the system immensely.

JESSIE WHYTE, WAUKEGAN, ILL., LEGISLATIVE CHAIRMAN, LAKE COUNTY RETIRED TEACHERS

We feel that persons on minimum have a contract with the government. That we met the requirements for this contract in all good faith—now government wants to cancel it. This is not fair.

We are concerned about loss of medicare. This loss if social security destroys our medical insurance programs. Yes, could buy medicare but this costs $800 to $1,000 a year. Many of minimum retired teachers are not married and have no other way of qualifying for medicare.

We suggest, regarding the financial situation:

(1) We are willing to aid by delaying or redefine cost of living.

(2) Why not tax upper-top social security and those with major incomes.

We retired teachers who qualified for minimum social security 20 to 30 years ago also resent being called double-dippers—we who qualified by taking any job we could get back in those summers—maybe $150 to $300 a summer.

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